Part One

Problems of Economic Development

6. At the beginning of independence, when a Syrian Govern- 652 ment assumed power, the country's economy was in a relatively primitive state. It was burdened by many restrictions, it faced difficult problems and it needed a great deal of care and order. The government had very little to build on, and it was faced, into the bargain, with a huge legacy of problems left to it by the previous régime.

7. We will first examine the problems arising from outside sources. The most important of these lay in the monetary and exchange system, customs policy, and the customs and economic union with Lebanon.

8. The monetary system was governed by a contractual a- 652 greement with a foreign bank, the Banque de Syrie et du Liban, 648 which managed the Issue Department and which took decisions on matters of issue and credit quite independently of the Syrian Government, which thus had no power of direction or control whatsoever. Syrian currency was tied to the French franc and the greater part of the cover was in French francs. These balances were the subject of disagreement between the Syrian and French Governments, both on the question of their guaranteed value in terms of sterling and the question of their free use. Negotiations with the French Government resulted in an agreement [1] which solved the question of the guarantee and granted Syria the right of gradually liquidating the franc balances. The break of the Syrian pound away from the French was agreed to and Syria became free to exercise the right of legislating in monetary matters. Subsequent to the agreement, Syria issued a series of laws that regulated the issue of currency, its circulation and cover, and which provided for the control of the Department of Issue and the direction of the monetary and credit policies. The last of these laws was Legislative Decree No. 87, of March 28, 1953, which covers the basic monetary law and the establishment of the Syrian Central Bank.

[1] The Agreement of 7 February, 1949; including liquidation, settlement, and payments agreements.

652 9. The exchange system was subject to the control of the
648 Mandatory authority which directed it in accordance with its own
interests, and the exchange control was a department administered
directly by the High Commissioner's Office. In 1944 the exchange
control was transferred to a joint Syro-Lebanese committee, headed
by a delegate from the Central Exchange Control Office of
the franc area, of which both Syria and Lebanon were members.
In 1948 Syria declared its withdrawal from the franc bloc and became
652 independent in dealing with exchange questions. The Exchange
Office in Syria thus became a purely Syrian institution.
Subsequently the Government initiated several reforms that aimed
at removing war-time restrictions. The exchange system became
gradually freer and adapted itself to the needs of the Syrian economy.
The last and most important of these reforms was Legislative
Decree No. 208 of April 21st, 1952, which allowed the free entry
and transfer of capital and created conditions facilitating commercial
transactions ; it also worked towards achieving stability in
the foreign exchange rates and bolstering the cover to the currency.
In this manner the Decree inspired confidence in the national
currency and prepared the right atmosphere for the entry of foreign
capital and its investment in the country.[1]

651 10. As to the customs policy, this also was directed by the
648 Mandatory authority. It was formed by financial considerations,
the first aim of which was to cover the expenditures of the Mandate and collect revenues for the treasury. When the Syro-Lebanese authorities took over the customs administration, the customs tariff and regulations moved gradually towards facilitating commercial transactions and encouraging national industry by exempting machinery and raw materials, needed by industry and agriculture, from duty. However, the establishment of a customs union between the two contries and the existence of an actual economic union, which took the form of free movement of goods, capital and persons between them, led to disagreements as to the customs and economic policies that each country thought should be followed. The disagreement reached its peak on the questions of import and export policies and the protection of national industry, and as a result of their faillure to agree on a common policy, the two count-

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[1] *Vide The First Annual Report on the Activities of the Exchange Office in 1952*, Damascus, 1953.

ries separated in 1950, and, in consequence, Syria regained free- 651
dom of action in directing her customs and economic policies and 648
in managing her economy on an independent basis.

11. The new Syrian government also had to face serious internal problems, that the Mandatory power with its "Laissez-faire" policy had not attempted to deal with. No factual study of the country was made nor any determined course of economic action undertaken. The following are the most serious of the defects of the economic system at that time :

First there was a lack of statistics and detailed studies upon 659
which to base a sound economic policy. Nor were there any technical and scientific studies of the country's economic resources,
or plans for developing and exploiting them. Secondly, the bank- 453
ing system failed in meeting the country's need for agricultural 652
credit and for medium and long term credit. The majority of the banks were branches of foreign banks that specialized in commercial short-term credit operations, and which, with the exception of the Banque de Syrie et du Liban, avoided seasonal agricultural lending. All the banks operated without any control or direction. Furthermore, no bank had up to that date been established to deal with industrial or mortgage credit. There was only the Agricultural Bank, established by the government to deal with medium-term agricultural loans, but its regulations, staffing and limited means did not enable it to play a major role in meeting the
needs of agriculture. Thirdly there was no money market that 454
could attract national savings and invest them in development projects. People with savings have always preferred to hoard them in the form of gold, or else they invested them in real estate. In addition, foreign capital avoided entry into the country because of restrictions on exchange, and other reasons.

12. During the period 1945 to 1953 the government made a 656
great effort to regulate the Syrian economy in the fields of trade,[1]

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[1] Legislative Decree No. 14 of December 18, 1951 and its amendments concern the regulation of the possession of, and trade in, raw materials and products. Legislative Decree No. 151, of March 8, 1952 and its amendments concern company law and the law governing firms established outside Syria. Legislative Decree No. 60, of January 18, 1952 and its amendments regulate foreign trade etc.

656 industry,[1] and agriculture,[2] and to establish stable principles of economic policy.[3]

647 To remedy the above mentioned defects and to fill the gaps in the country's economic structure the government established a Directorate of Statistics[4] and directed its attention to the preparation of scientific and technical studies of the country's resources.[5]
652 Finally, the government reformed the country's banking and
453 monetary systems by creating, in accordance with the Basic Monetary Law,[6] the Money and Credit Council with the function of exercising monetary control ; it laid down new monetary regulations inspired by the needs of the country and regulated the operations of bankers and money-changers. Reform included also the expansion of the Agricultural Bank's capital, the strengthening of its financial means and the extension of its operations to meet seasonal credit needs.[7] The question of medium and long-term credit remains however still unsolved.

433 13. To complete this brief survey of Syria's economic position in 1945, when the new national government came to power, it is necessary to give some account of general economic conditions.

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[1] Legislative Decree No. 47, of August 7, 1952 and amendments regulating Syrian industry.
Legislative Decree No. 138, of November 6, 1952 regulating industrial, commercial and free professions.
Legislative Decree No. 103, of September 27, 1952 relating to the encouragement of industry.

[2] Legislative Decree No. 135, of October 29, 1952 and Regulatory Decree No. 768 of November 3, 1952 concerning the distribution of state lands.
Legislative Decrees No. 50, 51 and 52 dated January 9, 1952 and No. 81, 82 and 83 dated January 23, 1952 and No. 125 and 126, dated January 20, 1952 relating to the planting and export of cotton ; Legislative Decrees No. 27, 80 and 106 of 1952 concerning the sale of Agricultural machinery and the combatting of agricultural pests and insects etc.

[3] *Vide Syrian Economy 1953* - Government Press, Damascus.

[4] Legislative Decrees No. 130 and 35 dated June 11, 1949.

[5] Report by Sir Alexander Gibb and Partners, 1947 ; studies of irrigation projects, the Ghab project, Lattakia port project and the Aleppo water scheme ; Mission of the International Bank of Reconstruction and Development.

[6] Legislative Decree No. 87, of March 28, 1953.

[7] Law 77, dated June 28, 1951 which provides for the addition of LS 10 million to the capital of the Agricultural Bank ; Law 126 which grants LS 5.5 million to farmers affected by losses ; Legislative Decree No. 9 amending the Agricultural Bank Law ; and Legislative Decree No. 97 which empowers the Agricultural Bank to extend seasonal loans etc.

185 ginning in solving many problems of agriculture, industry, and trade. There is not enough space here to give details of their achievements; it is enough to say that, by continuous and widespread effort, the Syrian government was able to remove external problems and to clear away many of the internal obstacles and restrictions that hampered the country's progress. Thus they prepared the way for the emergence of a policy of economic development, and created many of the essential conditions for its success.

15. Leaving aside particular and secondary problems, we can diagnose Syria's major development problems as follows : National production is still far below capacity ; a large part of national resources and wealth are not yet exploited. Many large-scale projects must be undertaken before any increase in productivity can take place. Such projects are : irrigation, the draining of marshes and extension of cultivable land ; improvement of agricultural methods, utilization of modern machinery and combatting of plant diseases and pests ; exploitation of natural resources such as minerals and mines, and the generation of electric energy and motive power ; the improvement and increase of livestock by better water supplies, shelter and pasturage ; re-afforestation and the preservation of existing forests ; the construction of roads, bridges, ports and airports, and the supplying of means of transport to facilitate communications ; the completion of land surveys and settlement operations in all districts; the construction of general warehouses; the supplying of drinking water and electricity to rural areas. But, whereas the country's needs are great, her financial means are not
454 adequate to cover them. National savings are low in themselves, as we noted above ; people prefer hoarding gold or investing in
652 real estate. There is as yet no financial market in Syria. State finances are necessarily weak so long as they depend on a weak economy. Thus, neither the state nor private individuals can be expected to finance big development.

16. It follows from the above that the economic development of Syria depends on a solution to the following problem : the Syrian economy needs capital and finance projects that will create conditions favourable to its growth ; but, as a result of its weakness and underdevelopment, it lacks the necessary financial means. In other words, the state's financial capacity is small and cannot expand unless national production grows ; and national production cannot grow unless the state's financial capacity expands. How

then, are we to get out of this vicious circle? It is worth our while, before we attempt to answer the question to review the development policy that was followed during the period 1945-1953.

Part Two

Economic Development During the Period 1945-1953

17. Credits allocated to development projects and approved by the Syrian government from 1945 up to the end of 1952 totalled approximately LS 420 million, of which LS 301 million were actually spent during that period; that is, at an average rate of LS 37.7 million per year.

In what follows we shall briefly describe the projects that have been executed, and the means by which they were financed and administered.

Projects Executed

18. The effort exerted has covered constructional, economic and social aspects. Expenditure was distributed as follows:

Table 1

Expenditure on Development Projects 1945-1952
(in LS Millions)

Government buildings	25,728
Schools	11,500
Hospitals & Clinics	8,500
Irrigation	41,000
Communications (roads, bridges, ports and airports)	39,120
Railway lines	8,287
Automatic telephone	33,000
Electricity	10,000
Agricultural & veterinary schools, centers & nurseries	4,000
Agriculture & agricultural credit	29,300
Cereals Office	40,000
National Industrial companies	16,927
Survey and settlement	6,500
Municipalities (drinking water & electricity)	27,500
Total :	301,362

652 The distribution of this expenditure over the years 1945-1952 gives us the following approximate figures:

Table 2

Expenditure on Development Projects for the years 1945-52
(in LS Millions)

Year	Expenditure
1945	9,300
1946	13,150
1947	26,367
1948	67,750[1]
1949	45,015
1950	40,512
1951	54,820
1952	44,448
Total:	301,362

The Financing of Projects

19. Development projects were financed from three sources. First, from appropriations allocated from the general state budget; secondly, from available treasury funds, most of which consisted of the budgetary surpluses that went to form the reserve fund; and thirdly, from loans from the Bank of Issue. The following Table indicates the relative importance of each of the three sources of finance.

Table 3

Source of funds	LS Millions
From budget appropriations	115,000
From available Treasury funds	59,537
From the Bank of Issue	126,825
Total:	301,362

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[1] The amount allocated to the Cereals Office ranged between LS 25 and LS 50 million in different years. The sum of LS 40 million appears only in the year 1948 although allocations were made in the following years as well.

Table 4 below gives a division of the funds according to source and year.

Table 4

Development Funds According to Source and Year (in LS Millions)

Year	Budget Appropriations	Drawn from Available Treasury Funds	Taken from Bank of Issue	Total
1945	7,500	1,800	—	9,300
1946	8,250	3,500	1,400	13,150
1947	12,250	7,617	6,500	26,367
1948	17,500	7,500	42,750	67,750
1949	21,500	9,620	13,895	45,015
1950	17,250	11,500	11,762	40,512
1951	15,500	10,500	28,820	54,820
1952	15,250	7,500	21,698	44,448
Total:	115,000	59,537	126,825	301,362

In general, we notice that budget expenditures were made on general projects, such as communications, government buildings and schools, that do not yield direct revenue. On the other hand, financing from treasury funds or from the Bank of Issue took the form of loans given to projects that yield returns and are thus able to repay them. Electricity installations, national industrial companies, the automatic telephone, and loans to municipalities are examples of the second type. Out of the loans made for these purposes the following amounts were repaid during the period under review :

Repaid out of the amounts drawn from the available treasury funds.	LS 12 million
Repaid out of the amounts advanced by the Bank of Issue.	» 12 »
Total :	LS 24 million

20. We have no comment to make on the method of financing from the budget or from available Treasury funds; for these finan-

652 cial sources are derived from national savings and were drawn from taxes that fed both the budget and the reserve fund. Average expenditure per year reached LS 22 million. Since the state budgets ranged between LS 99 million in 1945 and LS 200 million in 1952 this represents about 10 per cent of the total budget.

21. The method of financing from the Bank of Issue requires some clarification and discussion. When the government had recourse to Bank of Issue loans to finance a part of her development projects, the Banque de Syrie et du Liban used to secure the necessary funds in one of two ways: either by placing the loan in the currency cover and issuing new currency paper; or else by utilizing the public deposits in its commercial department. For, besides undertaking normal banking operations, the Banque de Syrie et du Liban was at the same time in charge of currency issue. By virtue of its concessionary position it acted as the financial agent of the government, and was the bank in which were deposited the treasury's funds and those of all public departments and institutions, such as the Waqf, municipalities, railways, and electric-power establishments. These public deposits were placed in the Bank's commercial department and in recent years ranged in amount between LS 100 and LS 120 million. The Banque de Syrie et du Liban often used these public deposits to finance the larger part of the loans on the understanding that, if funds were later drawn from public deposits, it could call on its Issue Department to obtain the funds required and place in the currency cover the loans drawn from the deposits. It can therefore be said that a large part (about 65 per cent) of the Bank of Issue loans originated from public deposits placed with the commercial department. Government borrowing, for this reason, did not necessarily lead to a direct increase in the currency in circulation.

22. The loans from the Bank of Issue that were used during the period under review to finance development projects reached LS 126.8 million, of which LS 40 million were used by the Cereals Office to buy cereals from the farmers which it later sold gradually both in internal and external markets. This operation was not in fact more than a short-term commercial credit operation of seven to ten months duration, and it can therefore be said that the financial operations of the Cereals Office had no inflationary impact on the Syrian economy.

452 The remaining sum of LS 86.8 million (126.8 - 40) was invested for periods ranging between 5 and 10 years, in projects which are likely to have a quick effect in terms of expanded national production and economic activity. The Bank of Issue loans, which amounted to LS 86.8 million, invested in development projects, did not, considered apart from other loans and inflationary factors, have an inflationary effect upon the Syrian economy, for the following reasons: the sum of LS 86.8 million was spread over eight years at an average rate of LS 11 million per year. This amounted to only 5 per cent of the money in circulation which reached LS 197 million at the beginning of 1945 and LS 239 million at end of 1952. During the same period there appeared several factors that had a deflationary impact, counterbalancing or modifying the effect of the Bank of Issue loans. On the one hand, as we pointed out earlier, LS 24 million out of the funds invested in development projects were repaid within the same period. On the other hand, the Reserve Fund rose from LS 27.9 million at the end of 1944 to LS 45.2 million at the end of 1952, the source of the increase being an excess of budget revenue over expenditure. Thirdly, part of the expenditure was made in foreign exchange, thus leading to a contraction in monetary circulation equal to the amount of foreign exchange drawn for that purpose from the currency cover. Fourthly, the greater part of the loans were financed, as we have seen, by drawing on the public deposits placed in the Commercial Department of the Banque de Syrie et du Liban. Finally, it is well known that the velocity of monetary circulation in agricultural countries is lower than in industrial countries. In countries that lack developed means of capital transfer, the effects of monetary inflation do not therefore appear as strongly or as fast as with a highly developed banking and deposit currency system.

435 23. Changes that took place in internal prices and exchange rates during the period under review[1] support this view. Internal prices — except during the Korean war emergency — did not rise, despite the existence of other inflationary factors due to loans spent on nonproductive projects, and despite the lack of any set monetary policy to control credit. This phenomenon can be explained only in terms of a growth of national production during the period under consideration and by appreciable expansion in economic activity. The following Tables support our observations :

[1] [1945 - 1952 -- Analyst]

The noticeable rise in the rates during 1951 and 1952 is largely 457
due, we believe, to the conditions arising from the Korean war.

Planning and Administration of Projects

24. It is difficult to say that there existed in Syria a development policy with definite aims and worked-out plans during the period 1945-1952. Development projects were studied and approved piece-meal under pressure of need and circumstances, without reference to any general programme, and without being subjected in their administration, execution, or the management of their financial and economic effects, to one single authority that could direct the whole operation and create the conditions for its success. The projects had nothing in common except the great need felt for them and the necessity of finding the required funds. 652

25. Development projects were approved in one of two ways. First, by including them in the body of the state budget and making the necessary appropriations. As most of these projects could not be executed within one financial year, the Budget Law provided for the transfer of such appropriations to a special account outside the budget called the Development Programmes Account. The purpose was to prevent the cancellation of unused appropriations at the end of the financial period, as is normally done in a yearly budget. Secondly, the projects that were financed from available treasury funds or from Bank of Issue loans were approved individually by issuing for each project a special law, which established definite principles for its administration and execution and which authorized the government to borrow the necessary funds either from the available treasury funds or from the Bank of Issue.

26. The method followed up to now in approving, financing, and executing development projects is not free from certain defects and pitfalls. These are the main criticisms we have to make. First, it does not enable the government to have a complete picture of all the projects that the country needs, or of the cost and the period required for their execution, so that it can make a priority list and earmark definite financial sources for each one. Without such over-all comparison, the government cannot give each project the priority it deserves according to its productive value, the speed of its execution and the funds it requires. Moreover, without prior study of the projects, and a stock-taking of its financial

652 capacity, the government cannot establish a clear principle of economic development; nor can it expect to have a long-term, integrated policy, characterized by stability and permanence, and guaranteeing the execution of the projects free from interruption, vacillation and the interference of personal interests. Finally, the government has not evolved a unified policy that can integrate financial and monetary considerations on the one hand, and the requirements of economic policy on the other. If no general development programme is adopted, the authorities concerned will not be able to handle the monetary, financial and economic problems that are bound to be raised by the application of parts of the programme. The prerequisite for the solution of any problems that may arise is a planned integration of ends and means.

Part Three

185 The State of Economic Development at the Present Time

27. By the end of 1953,[1] following an initial period of experimentation that lasted for nine years, Syria had covered a good distance on the road of economic development. In addition to the efforts made to execute a considerable part of the development project, the Syrian government has succeeded in creating many of the conditions necessary for further development. There remains before it the new, critical stage of determining and implementing a complete balanced development policy.

28. The Syrian government managed, in this period, to remove some of the obstacles, both external and internal, that stood in the way of the success of any development policy. It also started to make studies of the country's potentialities and began to organize the collecting of statistics and data concerning the country's condition. It strengthened the mainstays of the national economy and organized it on a firm basis. Then it turned to its monetary and banking system and established a supreme authority to undertake its administration. This authority was given the powers and means necessary for managing monetary, exchange, credit and banking

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[1] At the time of writing in the autumn of 1953, the final figures for 1953 were not available. This leaves a gap of one year in the survey of the period 1945-53 made in Part Two of this paper. However, no change in trends appeared in 1953.

Ensuring Harmony

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31. The execution of the development programme will have serious financial, monetary and economic effects upon the country. For it diverts a section of productive powers towards projects that do not necessarily lead to an immediate expansion in national production. On the contrary, it deprives production, for the period during which development projects are executed, of some of the factors that would normally be employed in producing consumption goods. Since a development programme leads to the creation of additional purchasing power, as a result of its putting into circulation amounts of money in excess of what the economy is accustomed to, there are bound to be repercussions upon prices and wages. Production of consumption goods falls but purchasing power expands. This situation will demand careful attention from the government, which can counterbalance its inflationary effects in the following ways: by regulation of the amounts that can be spent at each stage on development projects ; by attempting to divert certain productive elements (such as the building industry) towards development projects ; by directing the additional purchasing power towards investment projects, or by absorbing it back into the national funds through encouraging savings, through taxation, or through imposing rationing on consumption.

32. On the monetary side, a development programme raises several problems, of which the most important are securing foreign exchange and the adaptation of credit policy to the new conditions created by the programme.

As to foreign exchange, the development programme is bound to create extra demand for foreign currencies. If the exchange available is not sufficient to meet the needs of the programme in addition to the other normal needs of the country, then the Planning Board will have to evolve a means of counterbalancing the tendency such a situation will have, to depreciate the national currency. It would be necessary to : limit the importation of luxuries and inessential goods ; borrow externally to secure the required exchange ; increase the country's exports so as to obtain extra exchange. This is difficult to achieve however, for the reasons mentioned in the previous paragraph.

Credit policy can play a major role in leading development policy to success, and in counterbalancing some of its short-term effects. Thus, credit may be contracted with the aim of fighting inflationary symptoms, or discount rates may be raised so as to encourage investment of private funds. Shortage of investment that may be found in certain consumption industries can be remedied by directing credit towards them, and by advancing the money they need at favourable terms. 652 185

33. As to financial policy, it plays the major role in determining the monetary or economic effects of the development project. It is well known that these monetary and economic effects differ with the different methods used to finance the development programme. It is also clear that the ease with which development policy problems can be solved depends on whether the state budget is in a state of deficit, balance or surplus. This also applies to expansion or contraction in ordinary budget expenditures and to the ways in which appropriations are spent.

34. It is not our purpose here to analyse the interaction and interrelation between each of the budgetary, monetary and economic policies on the one hand, and development policy on the other. We intend only to point out the basic fact, that no development policy should be prepared or implemented unless it harmonizes and co-ordinates with the general economic policy in all its aspects. Each element should have a planned reaction upon the others; thus all will cooperate in securing the maximum general welfare.

Securing the Funds Needed for Development Projects

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35. Syria's urgent development projects will cost in total some LS 400 million. Their execution will require from five to six years, which will make it necessary to secure annually a sum of LS 66 million.

The following sources of finance may be considered: taxes and reserve funds, internal and external loans, the investment of national and foreign capital.

36. There is no doubt that dependence on taxes and reserve funds is the soundest and safest method of financing development projects. Syria can allocate its available reserve funds for development projects, but cannot depend at present on taxes, since ordinary revenues are only sufficient to meet ordinary expenditure. It is neither possible nor desirable to raise taxation rates or to impose new taxes so long as the national income remains at its

652 [651] present level. The proportion of current taxes (approximately LS 200 million) to the national income (approximately LS 1250 million) is 16 per cent. This ratio may seem small if compared with that of other countries, but we should not forget that the national income of Syria is in itself small. What the average tax-payer pays in taxes is cut from his essential expenditure, since his income is not appreciably in excess of his essential expenditure. There is little surplus that the government can reasonably take in the form of taxation.

However, though we cannot depend on taxes to finance development projects, we should not neglect the improvement of methods of tax imposition and collection, and the need for strict inspection in applying taxation laws. It is not improbable that such improvements and inspection may lead to a 15 per cent rise in collected taxes, (about LS 30 million). This could very well be used to cover the desired expansion in ordinary government expenditure and to contribute towards development projects.

In any case, development expenditure tends in the long run to increase national income, thus forming in its turn a new source of public revenue that should not be neglected by the government, particularly since a greater taxation effort is essential to absorb the surplus purchasing power created by development projects and to combat inflation.

454 652 37. As to internal loans, we have seen that there is no financial market in Syria and that individuals do not embark on such a form of investment. Though we realize the difficulty of creating a financial market in a short period of time, yet we believe that it is possible at the present time to establish a money market, and that, with adequate measures, a financial market dealing with medium term loans could be set up in a relatively short time. Considering that private capital invested in national companies since 1944 has amounted to about LS 100 million, and that the capital invested in individual enterprises, whether industrial, commercial or agricultural, was more than twice the funds spent by the government on development projects, it becomes clear that the possibility of creating a financial market is not out of the question.

The creation of a financial market in Syria is an essential condition for the success of any development policy. Without a financial and money market the authorities concerned will not be able to direct credit affairs effectively, nor to manage monetary policy in the country. The benefits that such a market would bring would justify the government in adopting measures such as the following: 454 encouraging individuals to invest their funds in medium-term 152 loans yielding relatively high interest and carrying certain guarantees and exemption from taxes; requiring establishments such as insurance companies, social institutions and those individuals who are asked to pay reserve deposits (such as accountants and contractors) to hold their funds in the form of government bonds: in addition, the government could impose certain restrictions upon the activities of certain industries such as building, so as to divert capital towards the financial market. It is not our intention to deal with all measures that could be taken to encourage the financial market in Syria, but merely to indicate both the possibility of creating such a market, and the necessity of its creation as a condition for the success of the development policy, through the power it gives to the government to manipulate credit policy.

38. Another source of finance is borrowing from the Bank of 152 Issue. It is an easy method and attractive to governments, but it is fraught with dangers and pitfalls.

We do not believe that all borrowing from the Bank of Issue for the purpose of financing development projects is necessarily unwise; nor do we believe that it leads in all cases to inflation. The consequences that follow from this type of borrowing depend on the manner in which the loan is used, the economic conditions of the country, the position of the balance of payment and on several other factors.

An additional issue of paper currency for financing development projects can follow two channels: it can either flow abroad in payment for imports that are needed to implement the project, or it can be spent internally to meet local expenditure.

In the first case, paper bills are returned to the Bank of Issue to the same extent to which foreign currencies are drawn from it. Official foreign exchange and gold balances will be reduced, but the paper currency issued will have no impact on national income nor will it have any inflationary effect.

In the second case, the issued paper currency will lead to a rise in national income that may exceed the value of the issued paper. For part of the currency paper that reaches the workers and contractors of development projects will be transferred to other producers, thus giving them additional income and purchasing power, and so on continuously. Circulation of the newly issued paper

652 will not however be complete. For part of it will be saved and another part will find its way to the treasury in the form of taxes and dues; a third part will be used to pay for imports from abroad, in which case it will find its way back to the Bank of Issue and will be withdrawn from circulation. In these three cases no inflationary effects follow from the new issue. But the remaining part, which is used to purchase consumption goods and services, will no doubt create additional demand for the goods and services that form the total national output. If the national economy has unemployed factors of production and is in a conditon to meet the extra demand, then no inflationary effects will appear. If the national economy, on the other hand, fails to increase production so as to meet the additional demand for goods and services, then the economy will move towards inflation.

From another angle, the effect of the extra purchasing power appears in the balance of payments, for the additional demand is not limited to national goods and services, but extends beyond them to foreign goods and services. It is therefore necessary to know whether the country's gold and foreign exchange reserve will allow the satisfaction of the extra demand for foreign currencies, both from the development projects and from the people whose incomes are increased by the new issue. It is also obvious that a rise in the consumption of local products may lead to a reduction in exports, if national production cannot meet all the new demands.

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652 39. Foreign private capital can be utilized in two ways: in helping to establish or finance private projects; and in paying in foreign exchange for imported equipment required for government development projects. In this case, foreign banks would give medium-term credit for purchasing equipment from their country and accept repayment by instalments over a period of three to five years. Thus the government can pay for its imports in instalments over five years rather than in one lump. The merit of this method in protecting the foreign exchange value of the national currency and in avoiding inflationary effects is obvious. Having recourse to foreign private capital for the purpose of financing expenditure on development projects undertaken by the government seems to us, however, unlikely to be adopted. For such funds could not be invested in the country except under strict guarantees and difficult conditions.

40. Foreign government loans on the other hand have a po-

litical aspect that we do not intend to deal with here. Limiting 652 the discussion to the economic aspect, we have to distinguish be- 457 tween two situations: the use of foreign loans to finance expenditure abroad that has to be paid for in foreign exchange; the use of foreign loans to finance local expenditure due in local currency.

In the second case, the borrowed foreign exchange is put in the currency cover and an equal sum in currency bills is issued by the Bank of Issue and put into circulation as the need arises for covering local expenditure in national currency. Despite the fact that the issue of these paper bills is balanced by foreign exchange in the cover, its monetary effects are in no way different from the case of direct borrowing from the Bank of Issue for meeting local expenditure. Thus, what is said of financing development projects by borrowing from the Bank of Issue applies in full to foreign loans that are used to meet local expenditure. For this reason we think it unlikely that recourse would be made to foreign borrowing, because its financial and political conditions are generally more burdensome than those of direct borrowing from the Bank of Issue.

In the first case however, when foreign loans are used only to pay for that part of development expenditure due in foreign exchange, there is no doubt that the method has sound monetary effects; it completely solves the problem of securing foreign exchange needed for development projects, while at the same time saving the country from the dangers of inflation and preventing a fall in the external value of the national currency. Nevertheless, we do not recommend the use of foreign loans except to the extent that the country is in real need of foreign currencies. If the country has a sizeable amount of foreign exchange or if it can secure the necessary exchange through restricting its inessential imports, then there would be no necessity for foreign loans which, besides laying a burden of interest upon the national economy, may give rise to political difficulties.

41. It becomes clear from the above that the effects of a new 652 issue of paper currency depend in the first place upon the proportion of the new issue saved and absorbed by the treasury, to the part that is used to pay for additional imports; secondly, upon the condition of the national economy and its capacity to expand production so as to satisfy the extra demand for goods and services; finally, they are dependent upon the balance of payments position

652 and on the volume of the country's foreign exchange reserves.

In the light of these considerations, it can be said that, in an agricultural country such as Syria, whose economy has not reached the stage of development in which currency exchange methods and velocity of circulation are well advanced, and in which all the factors of production are employed, it is feasible to rely on loans from the Bank of Issue to finance development, subject to the following limitations and conditions: that recourse to issuing paper currency is kept within reasonable limits so that it may not lead to an excessive rise in purchasing power compared to the rest of the national income; that it should be used on projects that will lead quickly to an expansion in national production; that it should be accompanied by the control of economic activities to ensure that production for local consumption and production for export do not fall; that it should be accompanied by a monetary policy that directs credit activity so as to limit inflationary effects, and a financial policy that will adjust ordinary budget expenditure to the needs of the development programme; that it should be accompanied by administrative measures to raise the collection of taxes and dues; and finally that it should only be resorted to after the exhaustion of all other methods.

42. At present, Syria has a number of potentialities, all of which must be used wisely if the success of its development programme is to be achieved in full. Its reserve funds must be utilized. Great efforts must be exerted to improve the principles of tax imposition, collection and inspection. All instalments due on previous loans from the Bank of Issue should be allocated to the development programme. These loans have exhausted their impact and have become part of the Syrian economy.

The measures necessary to create a money and financial market should be taken as quickly as possible. Foreign capital should be sought to finance imported equipment, and, if that is called for by the balance of payments position, recourse should be had to foreign government loans. Loans from the Bank of Issue should be applied for within the limits and subject to the conditions set out above.

Summary

000 43. We deduce from the above study of the present and future economic development of Syria certain general principles that

452 months but renewable to the harvest season. Depending on the condition of the crops and the financial situation of the borrower the interest varies from 18-30%. This Aleppo credit does not become available to the farmer however until after the month of March for winter crops when it becomes possible to judge the condition of the crop. In the last three years the firm of Ma'marbashi Bros. has opened an office in Qamishli for commerce and banking. Its loans are no different from the other private money lenders.

Many of the merchants who lend money are also wheat, rice and cotton merchants. They receive the produce of their debtors which they sell for a commission and thus deduct the amount of their loans. In this way they have a sort of collateral besides the bills and they also profit from the commissions.

V. Credit by the Agricultural Bank

452 The Agricultural Bank of the Syrian Government does not
652 play effectively the role for which it was designed. Aside from all
the excessive formalities required by the Bank regulations which make
its operations slow, cumbersome, and onerous to the debtor as explained in the report of July 15 1952 on "The Agricultural Bank," the
amounts allotted by the Bank to Jazirah are infinitesimal in proportion to the needs of the area. The amount of credit extended by the
Bank for long and short term loans between the years 1944-1949 has
averaged LS 150,000 yearly, i. e., 1%, out of the total credit of
some LS 15 millions needed by Jazirah. Further, the Bank can grant
loans over LS 600 only against mortgage of land, and since 70% of t
the lands of Jazirah have no title, the activity of the Bank is accordingly restricted. A new decree, number 9, dated June 26, 1952,
permits the Bank to give loans to users of land as well as owners,
and puts at the disposal of the Bank the sum of two million pounds
for all Syria. The share of Jazirah in this sum will not exceed LS
200,000 which will not change in any degree the credit situation in
the region.

VI Credit and its Relation to the Land Problem

452 The problem of credit in Jazirah is tied up to a great extent with the stabilization and legalization of the land problem. The Banque de Syrie and the Aleppo merchant evaluate the borrowing capacity of the farmer by the machines he owns, the area of his

11: Hourani S-4 (no date) 1946 MD1 Syria MDI

671 courts', of which the personnel was partly French and only
672 partly indigenous; this system replaced that of the 'capitulations' which had existed in the Ottoman Empire and of which the operation was suspended so long as the Mandate should continue.

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648 The declarations of Syrian and Lebanese independence in
642 1941 have been gradually followed by a partial extension of self-government. Although the Mandate has not yet been formally extinguished, strict Mandatory control no longer exists. During the years from 1918 to 1941, during which France exercised this control, her efforts were attended with some success, but in general met with failure.

185 Briefly stated, the achievement of France was to bring into existence in Syria and Lebanon some of the essential conditions which would make possible the transition from a medieval to a modern society. Law and order were firmly established, even in backward regions where civil government existed scarcely or not at all in Turkish days. The improvements which were effected in the system of
491 communications assisted this process. Good trunk-roads
185 now link the main towns, and subsidiary roads have opened up the countryside to motor-traffic. These and other improvements have served not only to increase the efficiency of government but also to diminish local differences and prejudices.

● 652 The system of public finance was reduced to some sort of
185 order. It was placed on a comparatively reasonable basis, although there are still serious flaws, as for example the regressive incidence of taxation. On the whole budgets balanced; and after the share of the French Mandated Territories in the Ottoman Debt was paid off in 1933 they had no public debt at all.

185 The improvements in public order and administration made possible an extension in the area of cultivation. The nomads were no longer allowed to raid the settled land, and were being gradually induced to become peasants. Some of the areas which they formerly dominated were thus opened up to agriculture; this was especially marked in the Syrian Jazirah.

185 For the first time for many centuries, the religious minorities
795 were treated on a level of full equality with the Sunni Moslems
in all official matters, judicial and administrative alike. (Some

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S 648 L 648 ne peut être en opposition avec les obligations contractées par la France en ce qui concerne la Syrie, particulièrement envers la Société des Nations. Cette réserve s'applique spécialement aux articles qui touchent au maintien de l'ordre, de la sécurité et de la défense du pays, et à ceux qui intéressent les relations extérieures. Pendant la durée des obligations internationales de la France, en ce qui concerne la Syrie, les dispositions de la présente Constitution qui seraient de nature à les affecter ne seront pas applicables que dans les conditions déterminées par accord à intervener entre les gouvernements français et syrien. En conséquence, les lois prévues par les articles de la présente Constitution dont l'application pourrait intéresser ses responsabilités ne seront discutées et promulguées conformément à la présente Constitution qu'en exécution de cet accord. Les décisions d'ordre législatif et réglementaire prises par les représentants du gouvernement français ne pourront être modifiées qu'après entente entre les deux gouvernements.'

Secondly, there were a number of important administrative services which were wholly removed from the control of the Syrian and Lebanese Governments and placed under direct supervision of the Delegate-General, who administered them through a staff which was largely French in the upper ranks, but Syrian and Lebanese in the lower. They included:

S L 652 648 i. The 'Common Interests', a number of departments dealing with matters of concern to both Syria and Lebanon. The most important of them were the customs administration, the control of concessionary companies and certain economic, financial and social services. They were financed out of the 'Funds of Common Interest', consisting almost entirely of customs receipts, which were sufficient not only to pay for these services but to provide a large surplus which was in principle divided between the two Governments.

S L 648 701 ii. The 'Troupes Spéciales', the local Syrian and Lebanese levies. Some thousands strong, they had been in existence throughout the Mandatory period as an integral part of the French Army of the Levant, and until the outbreak of war they had been wholly paid for out of the 'Funds of Common Interest'. They now formed part of the French territorial command.

000 iii. The 'Sûreté Générale', the organization responsible for

457 the end of 1953, even though Syria paid off during these years all but £ 10.2 million of a £S 44.6 million debt to Lebanon and repaid $1,454,123 to the International Monetary Fund.

Transport

489 The transport system which carries the country's commerce reveals many deficiencies. Although Syria is served by three railways, all were built before the breakup of the Ottoman Empire and therefore do not adequately serve the needs of an independent Syria. The gauges are not uniform, and there is no direct rail connection between Damascus and Aleppo. The port of Latakia, which handles most of Syria's overseas trade, is served only by roads. The railways in 1953 actually carried slightly less cargo than before the war. All of the substantial increase in traffic since the prewar period has been absorbed by motor transport. The number of all types of motor vehicles rose from 3,736 in 1939 to 13,146 in 1953, and the number of trucks from 873 to 4,742. Even such bulky commodities as cereals are now transported mostly by road. Yet the road system is also far from adequate and transport costs are very high.

504 Aside from Banias, which ships only oil transmitted by pipeline from Iraq, Syria has only one major port, Latakia. The volume of traffic at this port, which is still in process of development, has grown rapidly and amounted in 1953 to 90% of the overseas export and 46% of the overseas import trade of the country. The Lebanese ports of Beirut and Tripoli accounted for the balance. In the same year, however, almost half of the total volume of Syria's foreign trade went overland, principally to and from Lebanon.

Money and Credit

652 The monetary and banking system of Syria is still in the process of
457 development. Although a new monetary statute enacted March 28, 1953 envisages the establishment of a government central bank within a few years, the note-issuing function meanwhile remains with the Banque de Syrie et du Liban (BSL) which first received the right to issue currency during the French mandatory regime. Gold and foreign exchange in the monetary cover is bought through the intermediary of the Exchange Office, an autonomous government agency established in April 1952. This

Office is responsible for enforcing foreign exchange controls and regulating 652
the foreign exchange market. Although it has no monopoly, the Office 457
is the principal buyer and seller of foreign exchange either via the commercial banks or directly. While recognizing the postwar depreciation of the Syrian pound from the nominal official rate of £S 2.20 to the dollar, it has intervened to smooth out the fluctuations in the *de facto* or free rate arising from the seasonal nature of the country's exports. Its stabilization operations were initiated at the end of 1952 when it began publishing a daily bulletin of the rates at which it was prepared to buy and sell. In 1953 it broadened its stabilization operations by setting rates for forward transactions. In the initial period it succeeded in narrowing the fluctuations, and since July 1953 it has kept the dollar rate at £S 3.575. Its operations were undoubtedly instrumental in preventing the favorable trend in the balance of payments during 1953 from resulting in a marked appreciation of the Syrian pound, which would have adversely affected Syria's exports. The Exchange Office has allowed rates of other currencies to fluctuate more widely, in accordance with their strength relative to the dollar as reflected in free markets.

Virtually all foreign exchange transactions now take place at the market rate as regulated by the Exchange Office. Foreign oil companies, however, are still required, pending the settlement of a conflict over oil transit payments, to buy Syrian pounds at the official rate for the purpose of meeting their local expenditures; and exchange required for imports of petroleum products is also furnished at the official rate.

Since 1948 foreign exchange restrictions have been progressively abandoned, so that all payments can now be freely made. Although imports are still subject to prior license, exchange is readily made available unless imports are restricted or prohibited for protectionist reasons. No restrictions exist on transfers of capital or payments of invisibles. Most exports are licensed partly to protect domestic consumers and partly to enforce repatriation of foreign exchange for shipments to all destinations except Arab countries. The requirement of repatriating foreign exchange was instituted to provide the Syrian market with a regular supply of foreign exchange.

The Syrian economy is served primarily by foreign banks. Of the 15 453
commercial banks accredited at the beginning of 1954, 10, including all the larger institutions, were foreign: five were French, two Jordanian, and one each Iraqi, British and Egyptian. The BSL, as the largest commercial

454 and £S 195 million in the four-year period 1950-53. The average has been about £S 180 million. Of this amount about 70% is accounted for by all building and probably 56% by housing construction. That investment in other sectors, notably agriculture, has not been heavier is undoubtedly due to the fact that most of the increase in farm output has been achieved simply by occupying and cultivating idle land which entailed relatively little investment.

454 Public investment has been much more modest. On this subject the 652 data obtained by the mission from various government agencies were conflicting. The available information, reconciled as far as possible, points to an annual total ranging from £S 25 million to £S 40 million, with the average about £S 31 million.

454 The total gross investment, which the mission believes has been rather conservatively estimated, is undoubtedly surprisingly high. On the average, it has probably amounted, over the four years 1950-53, to 13-14% of the gross national product. By comparison with other underdeveloped countries in Asia, this rate of investment represents a remarkable record of achievement. There is no evidence either in the balance of international payments or in the price structure that this volume of investment over the four-year period as a whole was financed by inflationary means. It was apparently financed for the most part from genuine savings, supplemented by some inflow of capital from abroad. In the immediate postwar years much of the investment was probably financed from the enforced savings accumulated during the war. Wartime money incomes were high. Commerce profited heavily from the scarcity of goods, and Allied troop expenditures in Syria were substantial. Money circulation increased sharply, but against a French franc counterpart. At the same time the shortage of goods kept down spending. Assets abroad increased, as did savings in the form of gold and precious stones. One source estimates that foreign assets, quite apart from the French franc counterpart of domestic currency circulation and savings in gold and precious stones, rose during the war by £S 325 million.[a] Part of such savings was undoubtedly used for consumption after the war, but a significant portion was probably invested at home. A substantial part of the profits earned in the postwar expansion of agriculture, industry and commerce was evidently reinvested. The business

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[a] Mohammed Thome, *Le Rôle du Crédit dans le Développement Economique de la Syrie depuis la première Guerre Mondiale jusqu'à nos Jours* (Madrid, Ediciones Castilla, S.A. 1953), pp. 217-18.

Recovery of Costs

The capital cost of irrigation and reclamation schemes can and should be recovered from the beneficiaries. In principle it makes little difference how these costs are recovered—whether through sales of government-owned land that is reclaimed or irrigated, through improvement levies on newly irrigated privately owned land, through irrigation dues, or through a combination of any of these. The state should, however, appropriate most of the benefits for the community at large and to this end impose levies on the direct beneficiaries proportionate to the benefits derived. This is not only socially equitable but it enables the government to recover the cost as rapidly as possible and thus acquire the means to undertake additional projects. The direct beneficiaries must, of course, be allowed to retain some of the benefit, but there is no justification for allowing private landowners whose land is irrigated by the government to enjoy a windfall or for settling farmers on newly irrigated or reclaimed land on terms which enable them to live on a standard far exceeding that of their counterparts elsewhere in the country. 3/12 652

In the past the government has sought to recover the cost through irrigation dues. In 1953 the government collected on this account £S 473,000, which left a margin of £S 268,000 over the amount appropriated to maintain existing irrigation schemes. Early in 1954 the government introduced a new scale of charges increasing progressively with the size of the landholding. The prospective yield of these charges is difficult to assess. While the scale takes into account differences in the benefits accruing from various schemes, the mission considers that the fees instituted for the Tell Maghass, Mzerib and El Senn projects, while higher than those in others, are still rather low in proportion to the benefits enjoyed by cultivators and landowners. A review of these charges therefore appears desirable. If and when the government adopts the mission's recommendation for a progressive land tax, the progressive feature of the irrigation charges may also have to be modified. [51]

Maintenance

Adequate provision for maintenance of irrigation schemes after completion is, of course, essential. Current appropriations for maintenance appear rather low. In 1954 they were raised to £S 350,000 from a total of

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652 £S 205,000 the year before, but even this amount provides only a little over £S 7 per hectare. The mission suggests that the maintenance allowance be increased gradually to £S 10 per hectare.

Water Conservation

312 While new irrigation schemes must obviously be carried out, it is also important that measures be taken to ensure that the limited supply of water available on existing irrigated areas is used to maximum advantage. Much water is being wasted because of inadequate knowledge of irrigation techniques and of the water requirements of various crops in different parts of the country. The mission has already pointed to the necessity of undertaking certain experiments to determine the appropriate irrigation duty as part of the preparatory work for the Euphrates irrigation projects. Quite apart from this, the Ministry of Agriculture in cooperation with the irrigation service should launch a series of experiments to determine the appropriate irrigation duty and irrigation techniques in areas which are already being irrigated. Such experiments, for instance, might well show that furrow irrigation makes better use of the available water supply than the customary basin irrigation. Demonstrations in water conservation might also be usefully undertaken. The mission has noted, for example, that improved levelling of land would produce a much more economical distribution of water. It is also evident that farmers in many places can be assisted in initiating small irrigation schemes of their own by storing runoff water in simply constructed catchment basins. To start work along these lines, the mission recommends a total expenditure of £S 1.2 million in the period 1956-60.

Proposed Outlays

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652 The commitments already undertaken by the government and the additional recommendations made by the mission would entail a very large increase in expenditures on irrigation and reclamation. The cost of the proposed program is shown in Table 5. The mission firmly believes that the projected outlays are necessary and can easily be justified by the increase in production that will be achieved.

TABLE 5 Expenditures on Irrigation and Reclamation, 1950–60

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(Thousand £S)

	Past outlays			Future outlays	
	1950–52 average	1953 estimate	1954 estimate	1955–60 total	Annual average
Projects—total	2,368[a]	3,130[a]	3,380[a]	197,000	32,833
Completion of works	—	—	—	9,000	1,500
Ghab	—	—	—	102,000[b]	17,000
Other new works	—	—	—	83,000	13,833
Euphrates valley studies	—	—	—	3,000	500
Maintenance	113	205	350	3,000	500
Research and demonstration	—	—	—	1,200	200
Grand total	2,481	3,335	3,730	201,200	33,533

[a] Budgetary and extrabudgetary expenditures. The 1954 total excludes an £S 5 million authorization for the Ghab of which probably only a negligible portion was spent.

[b] After allowance for receipts from sale of land and water.

III LAND POLICIES AND LAND SETTLEMENT[9]

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A fuller knowledge of the available land resources is essential not only to plan better utilization of land already under exploitation, but also to determine how much land remains for expansion of cultivation and what must be done to make it productive. Even the existing pattern of land utilization is hardly known. Data on the total cultivated area, on the acreage planted to individual crops and on production are at best only rough estimates which are often quite wide of the mark. Little is known as yet about various types of soils, their deficiencies and potentialities. Widely varying opinions are expressed regarding the area which can still be put to the plow or can be irrigated by gravity flow.

Aerial Survey Program

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Aerial photography can be of great assistance in planning land utilization and public works of importance to agriculture. Up to the present it tence to appraise this program. In view of the many other claims on public 206 funds, however, it suggests that the program be reviewed to reduce the target expenditures to about £S 10 million. In this review the highest priority might be given to the expansion of the telephone network in cities which are experiencing a rapid growth such as Kamichliye, Aleppo and Latakia, and to the improvement of interurban connections. The contemplated construction and equipment of a new transmitter for international communications might be given a lower priority.

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[9] See Annex E, p. 351.

VII PROPOSED EXPENDITURES

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Table 7 provides a projection of government expenditures on transport and communications over the six-year period 1955-1960. This projection takes into account not only the recommendations of the mission but also expenditures, such as those on railways and on road maintenance, which are determined by force of circumstance or the declared intentions of the Syrian government. The heavy increase in expenditures proposed reflects in major part the need to overcome the lag in transport facilities which handicaps the Syrian economy today.

TABLE 7 Past and Projected
Expenditures on Transport and Communications

(Thousand £S)

	Past outlays			Projected outlays, 1955–60	
	Av. 1950–52 (actual)	1953 (estimate)	1954 (estimate)	Annual average	Total
Roads (total)	5,078	5,380	9,278	17,125	102,750
Construction and improvement (total)				11,008	66,050
Latakia-Aleppo				1,228	7,370
Aleppo-Raqqa				580	3,480
Raqqa-Jezireh				7,625	45,750
Hama-Ghab				250	1,500
Aleppo-Damascus				667	4,000
Damascus-Dera'a				217	1,300

652 TABLE 7 Past and Projected
459 Expenditures on Transport and Communications
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(Continued from page 147) (*Thousand* £S)

	Past outlays			Projected outlays, 1955–60	
	Av. 1950–52 (actual)	1953 (estimate)	1954 (estimate)	Annual average	Total
Damascus-Beirut				192	1,15[illegible]
Tourist roads				[a]	[a]
Maintenance	3,233	3,600	5,800	6,117	36,700
Latakia port	373	500	10,000[c]	6,333	38,000
Railways (total)	641	750	1,209	2,833	17,000
Subventions	641	750	1,209	2,000	12,000
Purchase of DHP lines				833	5,000
Telecommunications	4,114	2,350[b]	4,700[c]	1,667	10,000
Grand total	10,206	8,980	25,187[c]	28,875	173,250

[a] Included in tourist program.

[b] Actual.

[c] Amounts include authorizations unlikely to be spent and are thus not comparable with preceding years.

CHAPTER 9

FINANCING AND EXECUTION OF THE PROGRAM

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1 FINANCING

We must now examine how future government expenditures as affected by our recommendations can be financed. First we shall review the total expenditures and then we shall analyze the available financial resources.

Projected Expenditures

Table 8 recapitulates under the heading "Development" the outlays envisaged in preceding chapters. The only additions to those previously discussed are items of £S 10 million for the capital of the proposed central bank and of £S 25 million for a development commission which is mentioned later in this chapter. It should be noted that not all of these expenditures are, strictly speaking, related to development. They include, for example, provision for the compensation of stockholders in nationalized public utilities and for the payment of additional subsidies to the railways. The average annual total of "development" expenditures is undoubtedly large—about double that of previous years.

To this total must be added the non-development outlays. Non-defense expenditures have been included in Table 8 under the heading "General Administration". We have projected these at a level which on the average would be 12% higher than was budgeted in 1953 and 1954 and 36% higher than actual annual expenditures in the three-year period 1950-52. By far the greater part of this increase has been attributed to the Ministry of Finance, whose budget will have to expand significantly to cover larger expenditures on debt service, tax collection and petroleum subsidies.[38]

[38] The cost of subsidizing imports of petroleum products arising out of the provision of foreign exchange for such imports at the official rate is borne by the Ministry's budget. It should be noted that the present subsidy on petroleum products may be abandoned but in that case there may be a corresponding reduction of taxes on petroleum products and therefore an offsetting loss in government revenues.

TABLE 8 Comparison of Past and Proposed Government Expenditures 652

(Million £S)

	Past expenditures			Projected expenditure for 1955–60	
	Average 1950–52 (actual)	1953 (budget estimates)	1954 (budget estimates)	Average annual	Total[a]
Development					
Irrigation and reclamation				33.5	201.2
Other agriculture				23.2	139.1
Industry				2.0	12.0
Tourist trade	[Accurate breakdown of total			1.3	7.9
Electric power	past expenditures not available]			10.1	60.7
Transport or communications . . .				28.9	173.3
Education				45.3	271.8
Public health				12.4	74.2
Community planning and services[b] .				4.2	25.0
Housing				1.3	7.5
Miscellaneous[c]				2.3	13.5
Sub-total	76.0	88.3[e]	n.a.	164.3	986.1
General administration[d]	53.7	64.4[e]	66.4	73.2	439.3
Defense	69.0	66.0[f]	75.4	75.5	453.0
Increase in government salaries . . .				4.2	25.0
Grand total	198.7	221.7	n.a.	317.2	1,903.4

[a] Totals do not check because of rounding.

[b] Including public administration buildings.

[c] Included in the six-year total are £S 10 million for capital of the projected central bank, £S 2.5 million for a development commission, and £S 1 million for the expansion of statistical services.

[d] Expenditures of the Presidency of the Council, Parliament, Supreme Court, and the Ministries of Justice, Foreign Affairs, Interior, Finance, and National Economy insofar as they are not included under development outlays.

[e] Actual expenditures under these two headings were apparently £S 11 million lower than the budgeted totals.

[f] Actual expenditures.

We have also envisaged a rise in the "overhead" expenditures of the Ministry of Public Works, which will be responsible for carrying out many of the projects provided for in the development program. For the remaining ministries and agencies, however, little or no increase has been anticipated. The development program can be financed only if the govern-

652 ment is determined to exercise the strictest economy in its other expenditures, which have already been raised significantly in recent years. At the same time we do recognize that the salaries of government servants will need to be raised and have accordingly provided £S 25 million up to the end of 1960 for this purpose. We shall revert to this subject later in this chapter.

Expenditures on defense have been projected at the level obtaining in the last few years. This should obviously be considered an assumption only and not a judgment or recommendation by the mission as to their actual or desirable future magnitude. However, any substantial increase in such expenditures is likely to be possible only at the expense of development.

Means of Financing

We believe that the total expenditure of around £S 1,900 million for the period 1955-60 can be financed without risking the danger of inflation. Table 9 sets forth the possible sources of financing which include (1) anticipated growth in existing revenues, (2) recommended revisions in taxes and revenues, (3) improved tax collection, (4) public utilities' income, (5) oil transit revenues, (6) domestic borrowing and (7) foreign aid and borrowing. Each of these will now be discussed in turn.

With the normal growth of the economy the yield of present taxes and revenues, other than oil transit receipts, can be expected to rise at an annual rate of 3% to 4%. From 1949 to 1953 government revenues rose by 67% or a little over 13% per year. A considerable part of this increase, however, was undoubtedly due to changes in the tax structure and tax rates. While national income probably went up about 25% during this period, the share absorbed by the central government apparently rose from about 11% in 1949 to approximately 13.5% in 1953. Since we anticipate a decline in the rate at which the economy has been expanding, we have not counted on an increase in the tax base of more than 3% to 4% per year.

It should be possible, however, to raise a modest amount of additional revenue by changes in rates and imposition of new taxes. Before discussing these increases, a decline in certain receipts should be noted. The mission fully endorses the abolition in 1954 of the export tax on cereals but we hope that the government will be able to resist pressure to eliminate the export duty on raw cotton as well. To do so would reduce revenues by

TABLE 9 Financial Resources, 1955–60

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(Million £S)

Existing revenues, with anticipated growth[a]		1,315–1,360
Additional taxes and revenues		
Change in base for application of ad valorem import duties	20.0	
Excises, import duties and fees	25.0	
Institution of global income tax	24.0	
Tax on large landholdings	10.0	
Additional revenues from state domain	11.0	
		90.0
Improved tax administration		40.0
Income from Aleppo and Damascus public utilities		60.0
Oil transit revenues		73.0
Domestic borrowing		85–120
Foreign aid and foreign borrowing		175–215
Total		1,838–1,958

[a] Annual increase of 3% and 4% respectively. The estimates exclude oil revenues and take into account the repeal of the export tax on cereals and the effect of the proposed adjustment in the livestock tax.

about £S 11 million per year, a loss which Syria can ill afford, and while the tax may well have discouraged the cultivation of cotton on unsuitable land, there is no reason to believe that it has worked undue hardship on efficient cotton producers. We recommend, however, that the existing specific duty be replaced by one levied on a sliding scale graduated according to the price of raw cotton. In addition we suggest that the present head tax on animals, which is difficult to administer, be repealed and that instead the sale of animals, wool, hides and skins be subjected to the regular 7% agricultural production tax. This would probably entail some loss of revenue which, together with the consequences of the elimination of the export levy on cereals, has already been taken into account in the projection of government receipts mentioned above.

Since the proposed tax and revenue increases recommended by the mission are discussed in previous sections of this report and in the Annex on public finance, they will be mentioned only briefly below: 651 652

1. *Assessment of import duties at the actual instead of the official exchange rate.* This would increase significantly the yield of existing ad valorem tariffs, many of which are very low in terms of valuations at the

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de facto exchange rate. We have already indicated in the chapter on industry, however, that this measure should be accompanied by a review of the entire tariff schedule so that the incidence of all ad valorem duties would not be raised arbitrarily.

2. *Higher excises, customs duties and fees.* Quite apart from the proposal in the preceding paragraph, it should be possible to impose additional excise taxes or, alternatively, customs duties on luxuries and semi-luxuries. The rates at which certain fees are collected on business transactions, including stamp duties, judicial and property transfer fees and the like, could also be raised.

3. *Imposition of a global income tax.* Existing income taxes are schedular in character, that is, levied separately on income derived from business and professions, salaries or wages, circulating capital, and urban real property. These taxes are not sufficiently progressive in their incidence on persons drawing their income from two or more sources. We recommend, therefore, that they be complemented by a global income tax, which would be more closely related to ability to pay. Income from agriculture which is not subject to any of the schedular taxes should in our view be included in this global tax. It has often been argued that taxation of income from agriculture is administratively impracticable. We propose, however, that only the high incomes derived from agriculture be included in the tax, and we do not believe that these are by and large more difficult to estimate than those derived from other sources.

4. *Tax on large landholdings.* The essential features of this proposed tax, which is recommended primarily as a measure of land policy, have already been outlined in Chapter 3.

5. *Additional revenues from state domain.* We have suggested that the income now derived from state domain that is already leased for agricultural purposes can be increased by gradually raising the rentals to a level conforming more closely to that prevailing for private land, for instance in the Jezireh. In addition, the recapture of land under the provisions of Law No. 135 of October 29, 1952, recommended elsewhere, should ultimately make considerable additional state land available for leasing.

The total amount of additional revenue we anticipate from these proposals is only £S 90 million over the six-year period. The eventual annual yield is likely to be much more than £S 15 million, but we have allowed for the probability that the proposed increases will not be fully effective for some time.

The more efficient collection of taxes is already receiving attention 651
from the government. Syrian officials have estimated that receipts from 652
all sources might be increased by as much as 40% if all liabilities under
existing taxes were enforced. To be conservative we have merely assumed
that more effective collection could ultimately raise the yield of direct and
indirect taxes, now amounting to about £S 160 million per year (average
of 1953 and 1954), by about 10%. For the period as a whole we have
estimated increased receipts on this account at only £S 40 million.

In the chapter on electric power we have pointed out that the net 652
operating income of the nationalized public utility companies of Aleppo
and Damascus, which is already high, is likely to rise still further. If this
income is not dissipated by lowering power rates, against which we
strongly advise at this time, it should suffice to finance the entire power
expansion program and also to pay compensation to the former owners
of these companies.

Foreign oil companies now pay certain fees on crude oil passing through Syria by pipeline. Receipts of £S 6.5 million were budgeted on this account in 1954. New and higher transit rates have been periodically under negotiation, and there remains no doubt that new rates will go into effect some time during the next few years. We have conservatively estimated the increased receipts on the basis of the most recent proposals made by the Iraq Petroleum Company, although this does not, of course, imply a judgment on our part as to the merits of the offer.

Prospects of Domestic Borrowing

The possibility of domestic borrowing without serious inflationary consequences must now be examined. As a preliminary it is useful to note how much the government has borrowed in the past. Over the five-year period 1949-53 the government raised a net sum of £S 157.1 million (according to figures on the public debt) by domestic borrowing, all of it from the BSL, which, it will be recalled, has some of the functions of a central bank. In the two-year period 1952-53 funds raised by net borrowing amounted to £S 71.1 million.

This increase was offset by a sharp rise in public deposits, as indicated below (in millions of Syrian pounds):

	1949–53	1949–51	1952–53
Net new public borrowing*	130.6	85.5	45.1
Less rise in public deposits	151.6	17.2	134.4
Of which public treasury	45.5	4.0	49.5
Difference	−21.0	+68.3	−89.3

* Changes in the public debt, excluding obligations which did not give rise to cash payments or receipts.

Over the entire five-year period, the increase in public deposits exceeded the amount of funds raised through borrowing by £S 21 million. In the first three years of the period, however, borrowing was much greater than the rise in public deposits, thus permitting an excess of public spending over revenues. In the last five years of the period, on the other hand, the increase in public deposits was far greater than the total amount raised by new borrowing.

Excess spending in the initial three-year period may have created some inflationary pressures. Whether deficit financing actually had any inflationary impact is almost impossible to determine in view of the dearth of reliable economic indicators and the additional difficulties of interpretation created by the termination of the Syrian-Lebanese economic union in 1950. It seems probable, however, that the continued expansion of production and trade during this period made it relatively easy to absorb the additional money supply injected into the economy by deficit financing.

The increase in public deposits during the years 1952 and 1953 was apparently not an important factor in the expansion of bank credit to the private sector. Bank credit did almost double during this period, rising from £S 115.1 million at the end of 1951 to £S 226.8 million at the end of 1953, and in 1954 there was a further expansion. The BSL, which held 93% of the public deposits at the end of 1953, accounted, however, for only £S 16.8 million of the increase in bank credit during the two-year period. In part the BSL was prevented from expanding credit by the requirement of the Ministry of Finance that foreign exchange transferred to the Bank by the Office des Changes be put into the monetary cover, thus necessitating a shift of the Bank's holdings of public debt from the issue to the banking department. Despite the over-all expansion in bank credit, which was financed to the extent of £S 51 million by an increase in banking advances from abroad, no inflation took place in 1952 and 1953. In fact prices were falling and, after the impact of the bad harvest of 1951 was overcome, the balance of trade and payments became progressively more favorable. Foreign exchange reserves during the whole two-year period rose from £S 73.7 million to £S 97.9 million at official rates and from £S 114.3 million to £S 157 million at free rates.

In the future it would obviously be unwise to rely extensively on borrowing from the proposed central bank or, in the interim, from the issue department of the BSL. Such borrowing leads directly to the issue of additional money which, unless offset by either the curtailment of private credit or a corresponding increase in national income, would produce inflationary forces causing a price increase or an unfavorable trend in the balance of international payments. In the first instance, therefore, the government must attempt to borrow in a manner which would be clearly non-inflationary.

This means that the government must be able to issue securities and establish a market for them. In the past, the government has not issued marketable securities either in the form of Treasury bills or government bonds. Some preparations for the issue of Treasury bills are apparently going forward, but no steps have been taken looking toward the marketing of government bonds.

The marketing of government bonds meets with three obstacles: (1) reluctance on the part of the government to offer attractive terms; (2) the lack of a capital market and institutions for the mobilization of savings; and (3) lack of confidence in the government.

Direct borrowing from the central bank (in this case the BSL) is appealing to the government because it is cheap. The interest rate is only 1% and some advances are even non-interest bearing. The dangers of this course of action, however, must be stressed. They are recognized in the Organic Monetary Statute providing for the creation of a central bank, enacted by Legislative Decree No. 87 of March 28, 1953. This legislation, contrary to previous law and practice, placed a limit on government access to the central bank. Under Title II of the law the amount of public debt acceptable as monetary cover was limited to (1) a consolidated advance to the state of £S 220 million; (2) cash facilities during any one budget year and repayable in that year of up to one-tenth of the budget receipts of the preceding year; (3) Treasury bills issued to cover foreign exchange and gold losses as a result of changes in rates or parities and

652 advances made by the Exchange Office under international payments agreements; (4) Treasury notes that might eventually have to be remitted by the government to cover its subscription to the IMF and IBRD; and (5) Treasury certificates, bills and bonds issued or guaranteed by the state up to a limit of £S 60 million, provided their issuance is authorized by law. The operations contemplated under (1), (2), (3) and (4) would not apparently lead to the creation of additional money, except to the extent that advances might have to be made to the Exchange Office to finance a surplus of local payments under international payments agreements. Syria has, however, no payments agreements at present, and the problem is not likely to assume considerable magnitude in the future. Thus only under (5) could a real new money-creating debt develop, i.e., to a total of £S 60 million.

These provisions, which have already become effective, impress us as a salutary restraint on inflationary deficit financing. We urge, however, that the draft legislation already prepared for the consolidation and appropriate management of the direct and indirect state debt be enacted as promptly as possible.

Government securities must therefore be floated on terms attractive enough to ensure their sale to customers other than the central bank. Just what the terms should be can be only established by a survey of the potential market (commercial banks and individuals) conducted with expert advice. In any event it would be advisable to err on the generous side. Treasury bills would probably have to carry interest rates of at least 2½% and government bonds from 6-7% depending on the relative attractiveness of other investments and the maturity of the issue. Judging from the experience of the Port of Latakia, which sought to market shares with a guaranteed return of 5%, the latter rate is likely to be too low, at least initially. Long-term bonds are almost certainly unmarketable. At the beginning the maximum maturity would probably have to be 3-5 years. This is all the more true because commercial banks would presumably be the principal investors until the public became more accustomed to the idea of investing in government securities.

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454 In most countries, savings are in large part mobilized by such institutional means as banks, special savings banks, insurance companies, and social insurance or provident funds. These institutionalized savings are then in turn largely invested in government bonds or other bonds. In Syria, as we have already pointed out, there are no institutions other than

the regular banks which are capable of mobilizing funds in this way. 652
Thus one important element in the market for bonds is lacking. 454

Institutional savings obviously cannot be developed within a short period. For the longer run, however, it is important that steps be taken in the next few years to stimulate such savings. Among the steps that the mission would recommend are the following:

1. The government should start paying its government servants, at least those in the upper half of the civil service grades, by check, so as to familiarize them with the use of banks and thus indirectly encourage them to make deposits in banks. Such a measure, though not of great importance, could at least be quickly implemented.

2. The Council of Money and Credit should canvass with the commercial banks the possibility of stimulating the development of savings and time deposits. Among the measures that might be discussed for adoption are (1) the possibility of establishing a greater differential between interest rates on current deposits on the one hand and those on time and savings deposits on the other without necessarily increasing the over-all interest burden of the banks; (2) the possibility of attaching some lottery feature to time and savings deposits (this is done in some countries such as Japan); and (3) the inauguration of a joint government-bank campaign designed to show how deposits in banks for given periods can "grow."

3. The government should look to the gradual introduction of a postal savings system. Such a system might be inaugurated on a trial basis in one of the larger cities. It would necessitate a publicity campaign in which the cooperation of teachers, religious leaders and the Chambers of Commerce, Industry and Agriculture should be enlisted.

4. The government should take various measures to encourage savings 652
through insurance. Among these are (1) the drafting, with expert foreign 456
assistance, of a modern insurance law designed to ensure that investors in life insurance are protected to the maximum extent possible and to lay down some stipulations regarding the portion of assets representing Syrian business that must be invested in Syria; (2) conferences with representatives of insurance companies doing business in Syria and neighboring countries, designed to explore the steps which might be taken to increase the volume of Syrian individual life and group insurance business through such measures as better training of agents and subagents, publicity campaigns, etc.; (3) exploration, with the help of ILO, of the possibility of introducing some forms of social insurance, particularly accident and

652 old age insurance, on a modest scale in Syria; and (4) enlisting the support
456 of Moslem religious leaders for insurance in the form of a pronouncement that the taking out of insurance is not contrary to Koranic teachings. Regarding the latter, it should be noted that such a pronouncement was obtained in Egypt quite some time ago. Egypt is one Moslem country where life insurance has slowly developed. There the face value of life insurance policies has increased from £E 30 million, with premium payments of £E 1.25 million, in 1942, to £E 67.7 million, with premium payments of £E 3 million, in 1951.

662 Since rapid results cannot be expected from measures to foster "insti-
457 tutionalized savings", the question arises whether the government can be expected to find a market for its securities under the conditions to be anticipated over the next six years. We have had occasion to point out that the considerable savings in Syria flow for the most part directly into investments of various kinds without the intermediary of a market, and that tangible investments, particularly in real estate, are generally preferred. At the same time the success of industrial companies in the postwar period and the tendency toward greater dispersion of their shares point to an increasing willingness to invest in securities. Moreover, as we have indicated elsewhere, private investment opportunities may not increase in the future at the same rate as in the past. The provision of additional agricultural credit through such a public institution as the Agricultural Bank may also displace some private funds now devoted to such financing. In theory, therefore, private funds may become available for investment in public securities. It is always possible, of course, that they may go, instead, into hoards or increased consumption. However, there has been a marked tendency in Syria to save and invest, and if savers and investors can be persuaded that government securities offer an attractive return and are safe, they might be expected gradually to venture into public investment.

A rate of return of 6% on government bonds might be attractive, at least to those who have been investing in building, where the return has been comparatively modest and where it might be expected to decline in the future. Lack of confidence in the government, in its determination to repay and in its use of public funds, is no doubt the most important obstacle. Such confidence is likely to be established only gradually. The government may already have contributed somewhat to this confidence in the last two years by stabilizing the value of the Syrian pound in relation to other currencies and by maintaining internal financial equilibrium. Special bond issues for specific projects which have impressed the business community 652 as specially worthwhile may be more successful than those intended to 454 raise funds for general government purposes.

During the period when full confidence in the government is lacking, people may be reluctant to "freeze" their funds in government securities. In the absence of a market where securities can be readily traded, such funds do tend to be frozen until the maturity of the government security. This difficulty might be overcome by providing that government bonds, even though issued for a stated number of years, will in principle be redeemed at stated prices at intervals of six months. If the bonds are originally issued on a discount basis and the redemption prices fixed in such a way that the implied interest rate increases the longer the bond is retained, a definite incentive to longer retention is provided. At the same time the investor has the assurance that he will always be repaid at short notice. Such a bond may also be appealing for bank investment in view of its liquidity. For the government it admittedly has a disadvantage in that the volume of redemption payments cannot be anticipated. In emergencies the government can, however, borrow from the central bank to meet the redemption payments. Such recourse, except for temporary purposes, is not to be recommended, but if the very possibility of prompt repayment strengthens confidence, it may in the longer run make unnecessary net borrowing from the central bank to meet redemption payments. To increase the attractiveness of investment in government bonds, the incorporation of a lottery feature may also be considered.

Any prediction as to the amount of government securities the "public" may be expected to absorb is exceedingly hazardous. It might be noted here that even if only 2% of gross private investment in 1953 (which was about £S 185 million) were to be diverted annually to investment in government securities, this would amount to a total of £S 18.5 million over five years. It may not be unreasonable to expect that over this period public purchases of government securities might range between £S 10 million and £S 20 million. Some underdeveloped countries such as India and Ceylon have been surprised by the unexpectedly favorable response of private investors to issues of government bonds.

In a number of underdeveloped countries commercial banks have been 652 persuaded to finance a substantial amount of public indebtedness. Syrian commercial banks might well become the major buyers of government bonds; this may or may not be economically advisable, depending on the

652 circumstances. It will tend to be inflationary if the banks acquire funds for such investment simply by rediscounting more commercial paper with the central bank, and it will have undesirable consequences for the private sector of the economy if the investment takes place at the expense of private credit. On the other hand, there would be no inflationary effect if foreign banks operating in Syria brought in additional funds from abroad to take care of investment in government paper as well as ordinary private credit needs. We have already noted that commercial banks do call upon their foreign branches or parent institutions for additional funds as credit needs arise. If the new central bank is established in Syria within a few years, as is envisaged, the commercial banks may prefer to obtain additional funds by rediscounting their paper with such a bank rather than by getting advances from abroad. This may not necessarily be the case if they wish to maintain their independence or if they consider investment in government securities attractive both because of the yield and the assurance that capital transfers in and out of Syria are permitted freely. To the extent that the demand for private credit falls off relative to the rise in private deposits, bank investment in government bonds also need not be harmful. With the probable diminution of private investment opportunities, deposits may rise more rapidly than bank credit. The increase in private deposits may then be a reflection of the rise in non-invested savings. Under these circumstances bank investment in government bonds may be a means indirectly of making this idle money available for public investment.

Government deficit financing—that is, borrowing from the central bank or the banking system as a whole in a manner that injects additional money into the economy—is not necessarily harmful under all circumstances. Its consequence depends on the conditions of production and trade and on the balance of international payments. If production and exports remain high and private investment and import of investment goods fall off, some deficit financing may be possible. The same will be true if production and exports continue to expand without an equally rapid rise in imports. If the private economy experiences some deflation, pointing to the existence of idle resources which could be quickly brought into production again, some offsetting inflationary financing by the government may not be out of place. At no time, however, will a rather haphazard approach to inflationary borrowing be justified. The timing and magnitude of such borrowing must be well considered. A careful watch will need to be kept on pertinent economic indicators such as the volume of production and exports, the volume of imports of consumer and investment goods, the trend in the over-all balance of international payments and the development of prices.

It would be dangerous to consider any extensive government borrowing from the banking system until proper control of money and credit can be assured through a central bank. The BSL is not in a position to exercise such effective control, in part because it is primarily a commercial bank and in part because it does not have the requisite powers. The necessary legislation for establishing a central bank has been enacted and the proposed institution has been endowed with ample powers over the supply of money and credit. Although it is to be established within a few years, as soon as the requisite staff can be trained with help from the BSL, few concrete steps have apparently been taken. If for one reason or another it proves impracticable to establish the central bank within the next two years, it would be well for Syria to consider concluding a transitional agreement with the BSL whereby the bank's issue and commercial departments are clearly divorced, under conditions which give the commercial departments of the BSL and all other commercial banks equal access to the issue department to the extent they can present paper eligible as monetary cover. This does not eliminate, however, the need for as much speed as possible in the establishment of a central bank with the full powers given it by the Organic Monetary Statute. If necessary, the Syrian government should engage the services of foreign central bank experts to assist in the establishment and management of the institution in its early years and to supplement the help in the training of staff already offered by the BSL.

After considering the possibility of new borrowing, it is necessary also to examine the volume of repayments on loans which the government has extended or guaranteed for its own agencies and enterprises or for third parties. These include the following loans by the BSL (in millions of Syrian pounds) outstanding at the end of 1953:

Public administrations and institutions . . .		59.4
Municipalities	12.8	
Aleppo Water Project	20.0	
Agricultural Bank	15.0	
Electric power authorities	10.1	
Railways	1.5	
Cereals Office		46.8
Industrial companies		13.4

In addition the government has made considerable funds available out of its own resources for investment by the PTT[30] with the evident ex-

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[30] Posts, Telephones and Telegraphs.

652 pectation that they would be repaid out of the profits of this enterprise.

Unfortunately the mission does not have much information on the terms of repayment. Loans to the municipalities are apparently for a 10-year period, so that we could expect over the next six years repayment of the amount outstanding at the end of 1949, namely £S 9.9 million. This may well be offset, however, by new municipal borrowing. It is doubtful that repayments on the Aleppo water loan will be significant within the next five years. Of the loans to the power companies, apparently £S 3.6 million will fall due before the end of 1959. We do not expect repayments by the Agricultural Bank since we have assumed, in making provision for additional capital for this institution, that it will retain its existing funds. The Cereals Office does not have sufficient assets to repay its entire debt to the BSL, so that the government will have to assume part of it. The Office should, however, be able to repay £S 10 million to £S 16 million out of its receivables and the liquidation of its inventories, and to this extent the government can safely reborrow from the central bank.[40] The loans to the industrial companies will all have to be repaid within the next five years unless they are again renewed. As for the investment advances to the PTT, it should be noted that the PTT budget for 1954 provides for the repayment of past advances of £S 3 million out of an anticipated excess of receipts on current account. While this may be over-optimistic in view of the past record of the PTT, we should undoubtedly take into account repayments of past advances if we include in the development program all the gross investment needs of the PTT. Perhaps we can anticipate repayments of £S 10 million to £S 15 million which can be credited against gross advances for new investment.

Thus we can anticipate the following non-inflationary sources of revenue or borrowing as the result of the repayments of the loans and advances discussed above (in millions of Syrian pounds):

Power companies	3.6
Cereals Office	10.0–16.0
Industrial companies	10.0
PTT	10.0–15.0
Total	33.6–44.6 (say 35–45)

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[40] Repayments could also be made out of its bank deposits, but since the withdrawal of these deposits is not likely to produce a contraction of bank credit, the government could presumably not reborrow and spend an equivalent sum without inflationary consequences.

Recapitulating, it would appear not unreasonable to expect the following sources of public funds other than ordinary government revenues from taxes, etc., over the next six years (in millions of Syrian pounds):

New domestic borrowing	
From the public	10–20
From the banking system	40–55
Reborrowing and repayments of government advances	35–45
Total	85–120

Part of the contemplated borrowing from the banking system may be inflationary in character. Significant unfavorable effects, however, need hardly be expected in view of the magnitude of the borrowing, the probable continued favorable development of the balance of international payments and the prospective diminution of private investment.

One final question calls for discussion: to what extent the government can draw down the balances in existing public deposits to defray its expenditures either in addition to or in lieu of the borrowing contemplated above. In this connection it is well to note first how these public deposits have developed over the last two years; this is shown in Table 10.

TABLE 10 Development of Public Deposits

(Million £S)

	End '51	End '53
Public Treasury	12.5	65.6
Public Administrations	47.7	73.9
(of which Customs)		(52.0)
Public Services (industrial, commercial, agricultural and financial)	7.2	49.2
(of which Cereals Office)		(19.7)
Other		0.2
Total	67.3	188.9

NOTE: Foreign exchange deposits of the Office des Changes are not included.

The largest increase has taken place in Treasury balances, particularly when it is considered that the Customs Administration was holding a very large deposit at the end of 1953 pending the transfer of these funds to the

652 Treasury.[41] The other type of public deposits which has risen rapidly consists of various autonomous government enterprises and agencies. A breakdown of these, available only for the end of 1953, is given below (in millions of Syrian pounds):

Exchange Office	6.9
Council of Money and Credit	2.0
PTT	4.3
Power, tramway and water companies	4.5
Railways	1.2
Port of Latakia	0.9
Agricultural Bank	2.2
Cereals Office	19.7
Tobacco Monopoly	4.6
Others	2.9
Total	49.2

The drawing down of public deposits is likely to have the same effect as deficit financing, particularly since it is doubtful that a decline in public deposits would be accompanied by a contraction of bank credit to the private sector. The government should regard these Treasury balances as a resource in lieu of, rather than in addition to, borrowing from the banking system; it should approach their use with the same caution it employs in considering deficit financing. The use of the accumulated balances of autonomous public entities should also be carefully watched. Finally, it would be well to require that all public deposits be kept with the Central Bank or, in the interim, with the BSL, so that the government can, if necessary, take effective steps to ensure that they do not have an undue effect on bank credit. Recently there has been a tendency to shift public deposits to other banks where it will be less easy to control their impact on credit.

652 *Foreign Aid and Borrowing*

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457 Our expectation that additional resources of £S 175 million to £S 215 million may be available from abroad rests on the assumption that Syria

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[41] The mission was unable to obtain information on the extent to which the Treasury is holding funds for the account of others. The new monetary statute envisages the ultimate establishment of a special Caisse des Depots et Consignations under the central bank to hold such deposits held on behalf of third parties; it is certainly advisable to have a clearcut distinction between the Treasury's own funds and those held in trust for others.

will be able to borrow for certain development projects and that the Syrian 652
government will accept offers of foreign aid. 648

Certain projects are likely to merit foreign loans. General economic 457
prospects warrant the expectation that Syria can contract some foreign debt and expect to serve it. At present there is no foreign debt except for the compensation due to the former foreign owners of the nationalized public utilities and a $6 million loan from Saudi-Arabia. Both the immediate and long-term prospects of the balance of international payments appear favorable. While there may be some decline in the price of exported cereals and cottons, continued expansion in the volume of exports, although at a lower rate than in the past, will probably more than offset it. A rapid rise in imports is unlikely to occur as long as monetary stability is maintained. Moreover, foreign exchange policy can be kept sufficiently flexible to enable the government to influence the volume of international payments and receipts.

The Syrian government has so far been reluctant to accept proffers of 652
foreign aid. The United States in 1954 offered to include Syria in its 648
economic aid program, and this offer presumably remains open. We have assumed here that Syria will ultimately consider it advantageous to accept. All other Arab countries have in recent years received such aid apparently without suffering any infringement of their independence. In the last five years the United States has allocated about $111 million in economic and technical assistance to the Arab countries. For 1954-55 alone almost $64 million has been assured to Egypt, Lebanon, Jordan and Iraq. If Syria does decline similar aid, it may well face the need of curtailing the development program we have outlined.

It might be appropriate to point out also that Syria signed an agreement with UNRWA in October 1952 under which $30 million was to become available for economic development projects that would assist in the rehabilitation of the Arab refugees from Palestine, who in Syria number some 85,000. Less than $2 million of these funds have actually been committed. Because of its insistence that the refugees be repatriated, the government has been reluctant to use the UNRWA development funds. At the same time it might be mentioned that the Director of UNRWA and his Advisory Commission, on which Syria is represented, agreed in a special report to the United Nations General Assembly in November 1954 that UNRWA should pursue its long-term task of "assisting the refugees

652 to become self-supporting," involving particularly UNRWA participation 648 "in the economic development of the host countries, thus making it possible for the refugees and the countries in which they live to benefit jointly by the combination of available rehabilitation funds and those from other sources."[42] The uncertainties regarding Syria's acceptance of these UNRWA funds are such, however, that we have not assumed that they will actually be used.

Municipal Financing

361 652 A brief word should be said regarding the financing of development expenditures by the municipalities. In a number of places in this report we have suggested that certain expenditures be shouldered by municipalities. We have envisaged municipal investment expenditures in housing, schools and community facilities totaling about £S 103 million for the six-year period. This implies an annual outlay of around £S 17 million, compared to a probable average of some £S 12 million in recent years (exclusive of expenditures on Aleppo water supply). We have provided for part of this sum by recommending that the central government allocate £S 8 million for community water supplies (exclusive of Aleppo). Thus the municipalities will have to find a net sum of between £S 4 million and £S 5 million per year for additional investment.

Unfortunately no comprehensive information was available in Syria on actual municipal expenditures and receipts. The budgets of all municipalities were reported to have risen from £S 24.4 million in 1949 to £S 29.6 million in 1952 and further to £S 37.6 million in 1953. Data obtained by the mission from a scattering of municipalities indicate that municipal revenues—which are derived both from local taxes and surcharges on certain national taxes—have increased rather rapidly. This lends support to the tentative belief that the municipalities can bear the additional proposed expenditures, although probably only if they are not required to reduce the outstanding amount of existing indebtedness. We strongly recommend, however, that the government undertake a survey of municipal finances with a view to determining whether the municipalities can actually meet their future requirements.

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[42] See U.N. General Assembly A/2717/Add. 1, 5 November 1954.

457 471 pute. Syria no longer need prove its determination to stave off unwanted external interference or infiltration. But it does stand to gain by demonstrating that the resourcefulness of its business community is matched by the government's mature understanding of the country's enlightened self-interest.

It is worth emphasizing that policies which discourage foreign investment are inconsistent with Syria's own record in other fields, such as that of foreign exchange. The free transfer out of Syria of capital and profits in itself creates a basic condition for the influx of funds from abroad. That it was obviously intended to have this effect is confirmed by the legislative motivation of Exchange Control Decree No. 637 of April 21, 1952, which explains that the new regulations aim at making it possible for nonresidents to open accounts with authorized Syrian banks in both foreign and local currency, without any restrictions or conditions. They are thus designed to foster, by means of free inflow and outflow of foreign capital, both short- and long-term foreign investment in Syria.

Finally, it can be pointed out that several underdeveloped countries whose position is not basically different from Syria's have been tending to remove all obstacles in the way of the inflow of capital and outside enterprise. This is true of Pakistan, India, Turkey, and Lebanon; particular reference should be made to recent changes in Egypt's legal and administrative treatment of foreign investors.

Syria's ratification of the Inter-Arab Payments and Capital Transfers Agreement was undoubtedly motivated by a very justified desire to facilitate the movement into Syria of investment funds from some of the oil-rich neighboring countries with limited domestic investment possibilities. Yet this capital is not likely to be attracted as long as legislation or practices discriminating against foreigners in Syrian business remain in force.

v FOREIGN DEBT

457 652 Syria's only external debt is an interest-free loan of U. S. $6 million made by Saudi Arabia in 1950, repayable in four equal annual installments beginning in 1955. The loan agreement was combined with a commercial agreement and provides for repayment in the form of Syrian exports.

Syria's debt to Lebanon, arising from the withdrawal by Lebanon in 1948 of £S 44.6 million circulating in Lebanese territory, has been settled

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by the aforementioned 1952 agreement, under which the Syrian Government ceded to Lebanon about 4 billion French francs which constituted part of the Syrian note cover and were held at the French Treasury. In other words, the Lebanese Government took the place of the Syrian Government in receiving French franc installments due from France to Syria according to 1949 financial agreements between the latter countries.

In 1952 and 1953 Syria repurchased certain amounts of its own currency[6] from the International Monetary Fund in gold and U. S. dollars, thereby adjusting its quota subscription to the IMF.

Obligations for external payments, hitherto unspecified, may arise from compensation to be paid to the former owners of the nationalized power companies.

VI THE FOREIGN EXCHANGE POSITION

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History of Exchange Controls

Foreign exchange controls were introduced in Syria in the first months of World War II. After a number of changes, they were gradually relaxed and in April 1952 were completely recodified. A brief review of the main stages of this development follows.

The first stage lasted until August 1948. Although in April 1944 administration of the controls passed from the French mandatory authorities to Lebanese and Syrian offices,[7] the system itself remained largely unchanged. Under it, all foreign exchange transactions were subject to license. Export proceeds as well as foreign exchange receipts from invisibles had to be surrendered at official rates to the Exchange Office, which supplied a certain amount of exchange for licensed imports and other payments. Exports of both foreign exchange and domestic currency required authorization. Regulations for the French franc area continued to be applied even after independent Syrian authorities took over the operation of the system in February 1948.

During the second stage, from August 1948 until September 1949, controls were considerably relaxed and a free foreign exchange market was

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[6] £S 916,000 in 1952 and £S 2.271 million in 1953, at official exchange rates.

[7] Which operated jointly until the dissolution in February 1948 of the de facto monetary union between the two states and separately thereafter.

ANNEX B *PUBLIC FINANCE*

I SUMMARY STATISTICS ON GOVERNMENT FINANCE

It is difficult to obtain from Syrian statistics a clear and complete picture of [illegible] government's fiscal operations. Inadequacies in government budgeting and accounting handicapped the mission in making a full appraisal of past accomplishments and tend to make difficult careful planning for the future.[1] This Annex has therefore been written within the limitations of the data available.

TABLE 1 Ordinary Budget of Central Government, 1945–54[a]

(Million £S)

Period[b]	Expenditures			Receipts	Surplus (+) or deficit (—)
	Defense	Other	Total		
1945	16.4	82.7	99.1	118.3	+19.2
1946	27.8	84.7	112.5	120.7	+8.2
1947	20.8	102.4	123.2	116.2	−7.0
1948	44.8	91.5	136.3	116.1	−20.2
1949	49.3	91.8	141.1	136.1	−5.0
1950–51	102.5	131.6	234.1	208.3	−25.8
Annualized[c]	68.4	87.8	156.1	138.9	−17.2
1951–52	104.6	161.4	266.0	271.7	+5.7
Annualized[c]	69.8	107.7	177.4	181.2	+3.8
1953	66.0	131.0	197.0	216.7	+19.7
1954	75.4	133.7	209.1	202.0	−7.1
1945–54	507.6	1,010.8	1,518.4	1,506.1	−12.3

[a] Closed accounts, 1945, 1946, 1947; provisionally closed accounts, 1948, 1949, 1950–51; preliminary figures, 1951–52 and 1953 budget estimates, 1954.

[b] Calendar years except for two 18-month periods: January 1, 1950–June 30, 1951; and July 1, 1951–December 31, 1952.

[c] Arbitrarily.

NOTE: Figures are exclusive of additions to, and withdrawals from, reserve fund and loans from Issue Department.

SOURCE: Derived from data provided by Department of Budget and Financial Control, Ministry of Finance.

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[1] See p. 263 et seq.

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Central Government Expenditures and Receipts

Over the decade 1945-54 expenditures recorded in the ordinary budget of the central government doubled (Table 1). Receipts also increased and over the period as a whole were almost as large as ordinary budget expenditures. Sizable budget deficits were incurred, however, in the years 1947-51, whereas substantial surpluses were realized in 1945 and again in 1953. The 1954 budget contemplates a deficit, but it may be noted that the 1953 budget also forecast a deficit while, according to preliminary figures, there was a large surplus. Roughly one-half of the growth in ordinary budget expenditures from 1945 to 1954 was attributable to larger spending for national defense and one-half to other programs. The mission has restricted its analysis and comments to the non-defense sector but of course has had to take defense expenditures into consideration in its general appraisal of government finance.

Among non-defense expenditures, outlays for general government functions—combining the Presidency, Parliament, and Supreme Court and the Ministries of Foreign Affairs, Finance, Interior, and Justice—declined from 38% of total non-defense costs in 1945 to 32% in the 1954 budget (Table 2). The functions of the Ministries of Agriculture and National Economy accounted for around 5% of non-defense expenditures at the beginning and end of the decade. On the other hand, expenditures on education, health and public welfare rose spectacularly from 16.7% of total non-defense costs in 1945 to 34.4% in the 1954 budget. Ordinary budget expenditures on public works and pensions and subsidies increased in absolute amount but not so rapidly as expenditures on other non-defense functions and hence constituted a significantly smaller percentage of the total at the end of the period than at the beginning. Somewhat more detailed figures on expenditures appear in Appendix A.[2]

The ordinary budget does not include certain advances to autonomous or semi-autonomous agencies or certain extraordinary defense expenditures and receipts. The extrabudgetary advances have covered a substantial volume of development expenditures in recent years. These outlays were financed from available funds of the Treasury and by government-guaranteed advances from the Issue Department of the privately owned Banque de Syrie et du Liban (BSL), (Tables 3 and 4).

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[2] See p. 289.

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TABLE 2 Non-defense Expenditures in Ordinary Budget of Central Government

(Thousand £S)

Item	1945		1948		1951–52[a]		1954[b]	
	Amount	%	Amount	%	Amount	%	Amount	%
Presidency, Parliament, and Supreme Court	3,141	3.8	3,146	3.4	3,295	3.1	5,137	3.8
Ministry of Foreign Affairs	1,520	1.8	2,925	3.2	3,166	2.0	4,303	3.2
Ministry of Finance[c]	4,016	4.9	5,809	6.4	7,600	7.1	8,572	6.4
Ministry of Interior	18,607	22.5	20,035	21.9	18,168	16.9	17,102	12.8
Ministry of Justice	4,022	4.9	5,426	5.9	5,823	5.4	7,422	5.6
Ministry of Education	10,401	12.6	20,536	22.5	31,264	29.1	37,097	27.8
Ministry of Public Health	3,413	4.1	3,444	3.8	4,975	4.6	8,764	6.6
Ministry of National Economy	871[d]	1.1	1,315	1.4	995	.9	1,527	1.1
Ministry of Agriculture	2,929	3.5	3,894	4.3	3,676	3.4	5,781	4.3
Ministry of Public Works	14,667	17.7	16,889	18.5	11,196	10.4	17,243	12.9
Posts, Telegraphs, and Telephones	1,507[e]	1.8	—	—	—	—	—	—
Pensions, subsidies, and other financial obligations	17,569	21.3	8,028	8.8	17,519	16.3	20,700	15.5
Total	82,663	100.0	91,447	100.0	107,678	100.0	133,648	100.0

[a] Annual rate arbitrarily derived from figures for 18 months July 1, 1951–December 31, 1952.

[b] Budget estimates.

[c] Excludes pensions, subsidies, and miscellaneous financial obligations. Includes Office of Printing and Official Gazette.

[d] Excludes bread subsidies, which are included in item "Pensions, subsidies and other financial obligations."

[e] Gross expenditures. Beginning in 1947 these outlays were transferred to an annexed budget.

NOTE: Figures are exclusive of additions to reserve fund.

SOURCE: Derived from data provided by Department of Budget and Financial Control, Ministry of Finance.

TABLE 3 Financing Outside Ordinary Budget, 1945-53

(*Million £S*)

Calendar year	From available Treasury funds	From Issue Department	Total
1945	1.9	—	1.9
1946	4.1	1.0	5.1
1947	8.1	5.4	13.5
1948	7.0	50.7	57.7
1949	9.4	13.9	23.3
1950	10.9	11.7	22.6
1951	13.3	28.7	42.0
1952	7.5	21.6	29.1
1953	10.2	10.5	20.7
Total	72.4	143.5	215.9

SOURCE: Council on Money and Credit.

TABLE 4 Outlays Financed Outside Ordinary Budget, 1945-53

(*Million £S*)

Item	From available Treasury funds	From Issue Department	Total
Automatic telephones	34.5	—	34.5
Major irrigation projects	8.4	—	8.4
Railways	7.0	2.0	9.0
Aleppo water supply	—	20.0	20.0
Electricity corporations	—	10.0	10.0
Port of Latakia	1.6	—	1.6
Fuel storage	.7	—	.7
Ghab Project Administration	1.0	—	1.0
Mira (Wheat Office), capital	—	50.0	50.0
Cereals Office, purchase of insecticides	—	6.0	6.0
Agricultural Bank	9.9	19.4	29.3
Municipalities	4.0	19.2	23.2
Supply deficit	5.2	—	5.2
Loans to guaranteed companies	—	16.9	16.9
Total	72.4	143.5	215.9

SOURCE: Council on Money and Credit.

In the period 1949-52, defense expenditures outside the ordinary budget totalled £S 89 million. Special receipts for national defense not included in the ordinary budget amounted to £S 18 million. A breakdown of these items year by year is not available.

Expenditures and receipts in the ordinary budget, extrabudgetary advances and repayments, and extraordinary defense expenditures and receipts are summarized in Table 5. This Table covers only the advances received by the autonomous and semi-autonomous agencies from the Treasury and the Issue Department and does not include funds derived by these agencies from their own operations or expenditures financed from such operating receipts. The figures on repayments of extrabudgetary advances are crude estimates of amounts paid to the BSL by autonomous and semi-autonomous agencies to retire government-guaranteed advances. Neither the original advances nor the repayments involved Treasury cash transactions, but they did involve changes in contingent liabilities of the Treasury and for this reason are here included in extrabudgetary expenditures and receipts of the central government.

TABLE 5 Budgetary and Extrabudgetary Expenditures and Receipts of Central Government, 1945-53

(Million £S)

Item	1945–48	1949–52	1953[a]	1945–53
Ordinary budget expenditures	471.2	641.3	197.0	1,309.5
Extrabudgetary outlays	78.2	117.0	20.7	215.9
Extraordinary defense expenditures	—	89.0	—	89.0
Total expenditures	549.4	847.3	217.7	1,614.4
Ordinary budget receipts	471.3	616.1	216.7	1,304.1
Extraordinary defense receipts	—	18.0	—	18.0
Repayments of extrabudgetary advances[b]	—	15.2	5.7	20.9
Total receipts	471.3	649.3	222.4	1,343.0
Apparent excess of expenditures	78.1	198.0	−4.7	271.4

[a] Preliminary.

[b] Crude estimates based on year-end figures for major classes of indirect debt of government to Banque de Syrie et du Liban.

SOURCE: Derived from Tables 1 and 3 and data provided by Ministry of Finance and Council on Money and Credit.

The figures, moreover, are unsatisfactory in that it is uncertain to what extent they represent actual expenditures as distinguished from amounts

652 authorized for expenditure. In general, it appears that recorded "actual expenditures" of the ordinary budget represent sums in fact disbursed, but it is known that in a few instances ordinary budget appropriations which were carried forward to later years were reported as actual expenditures of the year in which the projects were authorized. There are also indications that expenditures by autonomous and semi-autonomous agencies have sometimes lagged behind the receipt of advances from the Treasury and the Issue Department. It would be desirable for purposes of economic analysis and administrative control to have figures that distinguish precisely between plans for the future (authorizations or appropriations) and past accomplishments (actual disbursements).

The figures in Table 5 indicate a substantial excess of government outlays over current receipts in the period 1945-53. Although these figures cannot be considered a precise measure of the deficit, they do show that the government had to borrow and perhaps also to draw down its cash balances in order to finance its expenditures.

Government Debt

The government did borrow substantial amounts beginning in 1948. Inasmuch as the entire internal debt is owed to the BSL, the volume of net borrowing can be ascertained from figures on government indebtedness to that bank (Table 6). The credits were all originally extended by the Issue Department, but the bank has shifted some of the government obligations to its Commercial Department. Approximately one-half of the direct debt, it should be noted, represents obligations incurred by the government without corresponding cash payments to the public or entries in government expenditure accounts.[3] The "indirect debt" is composed of government guarantees of advances made by the Issue Department to autonomous or semi-autonomous public agencies and to certain privately owned industrial companies.[4] The external debt consists of a non-interest-bearing loan of U. S. $6 million from Saudi Arabia.

[3] This category includes: £S 65.8 million to reimburse the bank for losses due to depreciation of French franc assets included in the currency cover; £S 17.2 million of ordinary debt incurred to cover payments to the former mandatory power for buildings and other facilities; and £S 4.1 million for the Syrian subscription to the International Monetary Fund and the International Bank for Reconstruction and Development.

[4] The mission's recommendations regarding the government debt will be found in the Main Report and on p. 287 et seq.

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TABLE 6 Government Indebtedness to Banque de Syrie et du Liban, 1948–53

(*Million £S*)

Item	1948	1949	1950	1951	1952	1953
Direct debt	*104.2*	*109.0*	*131.5*	*151.0*	*164.1*	*166.8*
Difference on French franc currency cover[a]	103.0	65.8	65.8	65.8	65.8	65.8
Ordinary debt	—	40.0	57.3	76.8	91.2	92.0
Subscription in IMF and IBRD	—	—	1.5	1.5	2.1	4.1
Advances without interest	1.2	3.2	6.9	6.9	4.9	4.9
Indirect debt	*54.1*	*67.1*	*66.6*	*90.7*	*122.6*	*145.6*
Public administrations and institutions[b]	4.1	5.5	9.9	38.6	51.6	59.4
Cereals Office and MIRA	50.0	49.0	42.1	35.7	46.3	46.8
Guaranteed industrial companies	—	12.6	14.6	16.4	16.2	13.4
Exchange Office	—	—	—	—	8.5	26.0
Total	*158.3*	*176.1*	*198.1*	*241.7*	*286.7*	*312.4*

[a] Obligations issued by the government to reimburse the bank for depreciation of French franc assets held as legal cover for currency.

[b] Includes municipalities, Aleppo water supply, Agricultural Bank, electricity corporations and railways.

NOTE: Figures apply to end of calendar years.
SOURCE: Council on Money and Credit and Ministry of Finance.

Problem of Reconciliation

In order to verify the consistency and completeness of the figures and to lay the basis for further economic analysis, it would be desirable to construct a consolidated statement of government expenditures and sources of finance. To this end a year-to-year comparison would be made between (1) total budgetary and extrabudgetary expenditures and (2) total current receipts plus net proceeds of borrowing. Any difference between these two totals should be reflected in an equal change in the government's cash balances. Unfortunately, such a reconciliation is not possible in the case of the Syrian data. The most recent available figures indicate, for example, that, over the period 1949-52, outlays financed by the Treasury[8] exceeded current receipts plus borrowing by £S 13.4 million. Yet in this same period reported cash balances of the Treasury increased by £S 36.6 million. This leaves a discrepancy of £S 50 million. This discrepancy was explained to

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[8] Excluding government-guaranteed advances from the Issue Department of the BSL.

652 the mission as being due to the fact that current receipts and expenditures of the Treasury may be recorded on budget accounts for preceding years, that certain receipts are only provisionally deposited with the Treasury (these being collected by the government for the account of municipalities, special agencies or separate funds to which they are to be later transferred), that certain expenditures are actually advances which will subsequently be repaid or compensated, etc. The difficulty of precisely reconciling the figures indicates, nevertheless, that there is a need for better accounting.

Municipal Finance

Apart from the central government the 175 municipalities are the only units which have taxing and spending power in their own right, the *mohafazats* (provinces) being agencies of the central government without financial independence. In the Main Report[*] we have recommended that the government undertake a survey of municipal finances with a view to supplementing the scanty information currently available.

Information Assembled for the Mission

Unsatisfactory as these data on government finance may be, it is significant that the material summarized in the preceding pages is much more complete and reliable than that which has heretofore been available to responsible Syrian officials and the public. Much information was specially compiled for the mission. For example, published information on ordinary receipts and expenditures of the central government for 1946 and later years had been confined to budget estimates without any indication of the extent to which actual results differed from the budget. In the municipal finance field, the Ministry of the Interior made special tabulations of budget figures for the mission. Although municipal budgets must be approved by the Ministry and copies of all municipal budget documents are filed with it, it has never prepared any analyses of these budgets. Indeed, some idea of the lack of regard for statistical data may be inferred from the fact that prior to the mission's request the simple total of budgeted expenditures of the municipalities had been ascertained for only one year. In the circumstances it is clearly not possible to draw more than very general conclusions from the figures quoted in this report.

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[*] See p. 192.

II BUDGETING AND ACCOUNTING

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In common with many other underdeveloped countries, Syria's most urgently needed fiscal reform is improvement of budgeting and government accounting. There is no unified and comprehensive budget or financial plan. Complete and accurate information on receipts, expenditures and cash balances is not available. In many instances cumbersome procedures and excessive centralization appear to cause unnecessary delays and inefficiency.

Types of Budgets and Financial Relations

There are, in principle, three types of budget: (a) the ordinary government budget; (b) the annexed budgets; and (c) the budgets of the independent entities. In addition, an important group of operations consists of extrabudgetary advances from available funds of the Treasury and of advances by the Issue Department of the BSL with government guarantee. Still another arrangement was the extraordinary defense budget of 1949, which provided for certain receipts and expenditures in 1949 and later years.

These financial operations are not brought together in a comprehensive budget or set of accounts. The complexity of financial relations and lack of unified accounts are partial explanations of the incomplete knowledge of government finances to which reference was made in the previous section.

The ordinary budget includes the regular receipts and expenditures of the central government departments. No distinction is made between current and capital items. As submitted, this budget is always nominally in exact balance. Receipts, however, may include expected withdrawals from the reserve fund and expenditures may include expected additions to that fund. On at least one occasion in recent years anticipated proceeds of new borrowing from the Issue Department were included in budget receipts. In view of these practices the nominal balance of the ordinary budget is misleading.

The annexed budgets include those of the Syrian University; Arab Academy; Department of Antiquities; Syrian Broadcasting System; Posts, Telegraphs and Telephones; Tobacco Monopoly; and Customs Bureau.

The general budget is supposed to include appropriations for these agencies or the amount contributed by them to the Treasury after deduction of their operating expenses. This practice, however, does not seem to have been rigidly followed. The PTT, for example, has secured large extrabudgetary advances from the Treasury and has apparently used its operating surplus to repay part of these advances. Neither the advances nor the repayments entered the regular budget. Customs receipts, less administrative expenses, are recorded in the regular budget, but the Customs Bureau does not turn over the money to the Treasury until requested to do so. At the end of 1953, reported bank balances of the bureau amounted to well over one year's collections. The semi-autonomous position of the customs administration, which exempts its operations from usual budgetary and civil service rules, is unusual. It apparently is a carryover from the period of customs union with Lebanon.

The financially independent agencies or entities include the Ghab project; Latakia port; Agricultural Bank; Cereals Office; Council on Money and Credit; Exchange Office; electricity corporations; Aleppo water supply; Northern Railway; Hedjaz Railway; and the municipalities. These entities retain any surplus they may realize and they charge any deficit against their capital accounts. Some of the independent agencies have received large sums in the form of advances from the Treasury or government-guaranteed advances from the Issue Department of the BSL. Neither type of advance is entered in the general budget. Government-guaranteed loans to and repayments from private industrial companies also occur without any entry being made in the general budget accounts.

Budget and Accounting Agencies and Procedures

The principal budget and accounting agencies are the Department of Budget and Financial Control, the Department of Financial Affairs, the Treasury Department—all three located in the Ministry of Finance—and the independent General Accounting (Comptroller's) Office.

The Department of Budget and Financial Control is responsible for the preparation and, to some extent, execution of the ordinary budget. Requests for appropriations for the financial year beginning January 1 are supposed to be submitted to the Budget Department by the ministries about September 1 of the preceding year. The budget is expected to be presented to Parliament during December and adopted by it before the end

of that month. In recent years, however, the budget process has often fallen 652
behind this schedule. The Budget Department has an accountant in each 451
agency who is supposed to preaudit expenditures. The financial control section is responsible for examination of proposed legislation with financial implications and for supervision of government personnel practices.

The Department of Financial Affairs is responsible for supervision of loans not itemized in the budget, including Treasury advances to government entities or government-guaranteed loans to industrial companies.

The Treasury Department handles actual receipts and disbursements. Expenditures and receipts which occur within three months after the end of the financial year to which they are attributable are recorded in the accounts of that year, the books being held open for that purpose.

The General Accounting Office has broad authority with respect to preaudit and postaudit of expenditures and personnel actions. The Office must approve in advance all contracts or purchases in excess of £S 5,000 and all contracts for rental of buildings extending beyond the current year. The examination concerns the legality of the action rather than its advisability. The Office must also give advance approval to hiring of government personnel to assure that there is budgetary provision for the position and that the candidate meets the legal requirements. It also approves increases in salaries and pensions. It is responsible for monthly and annual postaudits of accounts and for the closing of the budget. The annual budget is formally closed by an act of Parliament.

The General Accounting Office asserts that its preaudit functions have been kept up-to-date and that its procedures do not cause delay in making expenditures in conformity with the budget. A long delay is involved, however, in postaudit and final closing of the budget. The 1947 budget is the most recent one which has been formally closed. Accounts for 1948, 1949 and 1950-51 have been examined by the General Accounting Office but have not been passed on by Parliament. The mission was informed that the backlog of postaudit work was being reduced but that the General Accounting Office did not expect to be current in its postauditing until 1955.

The reserve fund is merely a bookkeeping device. The same budget may provide for additions to the reserve fund (recorded as budget expenditures) and for withdrawals from the fund (recorded as budget receipts). Although an increase in the reserve fund usually indicates a surplus in the ordinary budget, one substantial addition in recent years merely

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reflected a paper profit from the exchange advantage realized in liquidation of a debt to Lebanon for blocked Syrian currency formerly circulating in Lebanon. The fund therefore does not consist entirely of an accumulation of past surpluses. Even if this were true, drawing on the fund to cover a current deficit or an extrabudgetary expenditure would not represent a non-inflationary means of financing. An accounting system which relies on the reserve fund as a balancing item deprives the Parliament and the public of an easily understandable measure of current operations—the budget deficit or surplus—and may be somewhat misleading.

Criticisms

The most serious defect of these arrangements is the lack of a comprehensive budget covering all government receipts and expenditures. The ordinary budget gives an incomplete and misleading impression of the fiscal position of the government because it does not cover certain extraordinary defense expenditures and receipts and transfers of funds between the Treasury and independent agencies. Although it is appropriate for the independent agencies, especially those which are expected to be largely self-supporting, to have independent budgets, sound financial planning requires that the general budget clearly reflect the Treasury's relations with these agencies. The practice of authorizing advances from the available funds of the Treasury and from the Issue Department with Treasury guarantee for a diversity of projects which are not subject to unified review is unwise. Moreover, clear records of the status of outstanding authorizations for advances are lacking.

Provisions for preaudit of expenditures by the Budget Department and the General Accounting Office, together with the involved rules which individual agencies are expected to apply, result in a cumbersome procedure which places great stress on legal niceties but little emphasis on wise and economical use of resources.

Delay in accounting, postauditing and closing the budget means that no clear information on recent trends in receipts and expenditures is available to guide finance officials and the Parliament in preparing and approving the budget for a new year. Part of the difficulty arises out of the practice of attributing certain transactions occurring in the period January-March to the previous year. For purpose of control it is of course essential to match each disbursement with a valid authorization to spend, and it must be expected that a large proportion of payments made during the first months of any year will be under authority granted in the previous year. On the other hand, the essential requirements for purposes of treasury management and economic analysis are data on current cash payments, receipts, and balances of the government; from this point of view an exact allocation of all transactions to particular budget years is of secondary importance. In drawing up a new budget, furthermore, information on the recent past is needed in order to check on the rate at which authorized expenditures are going forward. Figures on total cash receipts and expenditures for the government as a whole and for each ministry can be prepared within a few days after the end of any calendar period. Such figures would be a highly useful supplement to information now available.

Partly as a result of lack of current information on resources and claims on them, the Treasury and other government agencies appear to have built up grossly excessive cash balances. Complete records on these balances are not available from government accounts but banking statistics on public deposits reveal the large size of the balances. As of December 31, 1953, public deposits denominated in local currency were as follows:[7]

	(Million £S)
Treasury	62.0
Customs service	55.6
Public administrations	21.9
Public services	49.2
Miscellaneous	.2
Total	188.9

Treasury deposits plus deposits of the customs service, which are at the disposal of the Treasury even prior to being transferred to it, were equal to more than half a year's ordinary budget expenditures. Public deposits as a whole have increased sharply since the end of 1951. They were built up at a time when the government was borrowing, directly and indirectly, large amounts from the Issue Department of the BSL. It is not possible fully to evaluate the adequacy of the balances because of lack of information. Treasury deposits, for example, include an unknown amount of third-party funds which do not legally belong to the government. This situation, of course, complicates financial planning. The possibility of an

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[7] From data compiled by the Exchange Office. In addition, there were £S 5.3 million of foreign-currency deposits.

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inflationary situation developing out of an attempt of various government agencies to draw down their deposits at a rapid rate should not be overlooked.

Suggested Reforms

Some of the main lines of reform of the budget and accounting system are implied in the foregoing observations, but for the sake of clarity they will be repeated. No attempt will be made to outline a detailed program; for this, it is suggested that the government obtain the services of a qualified foreign advisor. The mission recommends the following:

1. A comprehensive budget including all receipts and disbursements of the Treasury should be instituted. Items now financed through extraordinary accounts or by drawing on the available funds of the Treasury should be included in the general budget. Annexed budgets may be continued for agencies such as Posts, Telegraphs and Telephones, the broadcasting system, and the University, but all subventions and loans to these agencies and all contributions or repayments from them should be reflected in the general budget. Loans or capital subscriptions to the port, railway and electricity companies and other independent enterprises, as well as any recoveries of funds from these enterprises, should also be entered in the general budget.

2. The general budget may appropriately be divided into three sections. On the expenditure side these would be: (a) current expenditures; (b) capital outlays; (c) loans and capital subscriptions. On the receipts side the three sections would be: (a) current revenues; (b) proceeds of sales of state property; (c) recoveries of loans and capital subscriptions. Such a classification would be helpful for purposes of economic and financial planning but it should not be assumed that expenditure items of types (b) and (c) should always be financed by borrowing, or type (a) items always by current revenues.

3. Although the independent public administrations and services should remain outside the general budget and should not be required to comply with the detailed budget procedures applicable to regular departments and agencies, each independent agency should be required to submit annually a statement of proposed capital outlays. The proposals should be subject to review by a competent body to assure their consistency with the general economic program of the government in the light of current conditions.

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Capital outlays of municipalities might be subjected to the same kind of examination. 652 451

4. Projects extending over several years should be authorized in advance by law but funds for the whole project should not be transferred to a separate account or otherwise set aside when the project is authorized. Instead, appropriations should be made annually to cover expected disbursements of that year and funds should be released by the Treasury only as needed to make payments to employees and contractors. Appropriations remaining unobligated at the end of any year should lapse. This system would permit the government to exercise continuous control over spending. The Treasury would borrow, under a general authorization, only when necessary to make payments, and an increase in the public debt would be avoided while cash balances were available.

5. The so-called reserve seems to serve no useful purpose and it does complicate and confuse budgeting. It should be eliminated.

6. Two types of accounting records should be maintained. First, for purposes of control, a continuous record should be kept to show at all times the unobligated balance of each outstanding appropriation and the cumulative disbursements made under authority of the appropriation. These accounts would serve as the basis for auditing and closing each budget. Second, accounts showing cash receipts, payments and balances should be maintained. Prompt reports should be prepared from these accounts at monthly intervals; these would supply essential information for improving treasury management and budgeting.

7. Each budget should include (a) estimates of receipts and expenditures for the year under consideration; (b) revised estimates for the year in progress; and (c) actual figures for the preceding year. The budget should also present information on the amount of new spending authority requested, on cash balances, the public debt and other relevant items. It should clearly indicate the proposed means of financing any deficit or the disposition of any surplus.

8. Preaudit of expenditures by the General Accounting Office should be discontinued and this function assumed by the various operating agencies under the general supervision of the Ministry of Finance. Preaudit is an administrative control essential to internal management. Postaudit is concerned solely with verification of the legality of past transactions; it enables the legislature to make sure that the executive agencies have not exceeded their authority. The combination in one agency of preaudit and

652 451 postaudit functions is likely to lead to overcentralization, cumbersome procedures and operating delays.

9. The delay in postaudit should be reduced as fast as possible, by improving both accounting and auditing procedures, as well as by relieving the General Accounting Office of the preaudit function. Fraud and other crimes revealed by postaudit should be dealt with as provided by law but officials should no longer be held financially liable for procedural irregularities not involving fraud; in such cases attention should be directed to revising applicable procedures with the object of preventing a recurrence of the irregularities.

10. Cash balances of the Treasury and other agencies should be analyzed with a view to segregating public funds from third-party accounts. Excessive cash balances should be applied to reduction of the public debt.

651 III REVENUE SYSTEM

The most serious problems in the field of taxation arise from inefficient and inadequate administration and widespread evasion. The system is regressive and unequal in incidence. Although revenue has increased greatly in recent years—apparently more rapidly than national income—it will not be easy to assure a continuation of this trend. The system does not have a large degree of automatic flexibility of yield which would permit the government to capture a significant part of any increases in national income without changing tax rates.

Revenue Yield in Relation to Income and Population

The proportion of the national income collected in taxes and other government receipts appears to compare favorably with that in many other countries. In 1950 the ordinary budget receipts of the central government plus estimated receipts of all municipalities equalled 12% of estimated national income.[8] By 1953 central and municipal receipts appear to have

[8] In 1950 ordinary receipts of the central government were approximately £S 139 million (annualized estimate from 18-month fiscal period 1950-51). The total of municipal expenditure budgets in 1950 was £S 25.8 million, but the municipalities received Treasury-guaranteed advances of £S 4.8 million from the Issue Department of the BSL. This suggests that municipal budgets provided for approximately £S 21 million of financing from sources other than borrowing. It is not known whether municipalities added to or drew down reserve funds in 1950. The mission estimates the national income of Syria in 1950 at £S 1,380 million.

651 increase would add approximately £S 1 million per year to revenues.
427 Existing contracts and administrative problems would doubtless cause some delay in putting this recommendation into effect. Nevertheless, a significant increase in receipts could be obtained over the next few years.

IV PUBLIC DEBT

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Present Situation

The Syrian public debt amounted to £S 312 million at the end of 1953.[16] There is no considered public debt policy. Borrowing is not closely correlated with the government's need for funds, and in the past large amounts have sometimes been borrowed when the Treasury had available to it cash balances far in excess of immediate needs. In addition, no provision is made for regular service or retirement of the debt. The entire internal debt is held at low rates of interest by the BSL and the government has not attempted to develop a market for its securities among private investors. Moreover, the government does not seem to be fully aware that Treasury-guaranteed loans from the Issue Department to government entities and industrial companies are as much a use of the government's credit as direct government borrowing from the Issue Department and that the economic significance of the two types of transaction is the same.

The practice of financing expenditures by borrowing from the Issue Department is always potentially inflationary, but it can be acceptable and helpful when used in moderation and adjusted to economic conditions. It is objectionable if the volume of such financing is not based on a careful appraisal of over-all monetary conditions as well as financial needs of the government. Syria has so far largely escaped the inflationary consequences of resort to the Issue Department mainly because a considerable part of the borrowing in recent years has been offset by increases in cash balances. But borrowing when large cash balances exist is not only unnecessary but dangerous, since there is always the possibility that the various government entities might try to use their balances at a greater rate than the economy could absorb without risking inflation or the depletion of foreign exchange reserves.

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[16] See page 261.

The conscious development of marketable public debt instruments would help stimulate and mobilize private saving in Syria and at the same time establish a channel for future government loans which may be required to finance development projects. Possibilities along these lines will probably be limited for the next few years, but they are sufficiently promising to warrant the necessary effort. The fact that the purchasing power of the Syrian pound has been well maintained in the period since independence should lead to opportunities for borrowing not enjoyed by countries which have been experiencing chronic inflation. This advantage should be maintained and exploited.

Recommendations

The monetary effects of public debt operations are discussed elsewhere in the report.[17] We here summarize our recommendations for improvement of public debt management and for the initiation of a borrowing program designed to tap savings of the public. The main points are as follows:

1. The structure of the outstanding direct and guaranteed debt should be revised, and the debt should be divided into short-term and intermediate maturities, and permanent debt.

2. For the sake of improved budgeting and a clearer understanding of financial operations, direct loans from the Treasury should replace the present practice of government-guaranteed loans to municipalities, independent agencies and industrial companies.

3. Annual provision for payment of interest on the public debt should be made through an appropriation in the regular budget. Budget surpluses and Treasury balances in excess of current needs could be applied to reduction of the principal of the debt. The establishment of a rigid sinking fund is not recommended.

4. Treasury bills should be issued, and the government should require independent agencies to hold surplus funds in them.

5. The possibilities of establishing a wider market for short- and medium-term government securities should be investigated, particularly among banks operating in Syria. Attractive interest rates would have to be offered.

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[17] See Main Report, p. 179 et seq.

652 6. The general public should be encouraged to purchase government securities. Bonds could be issued in small denominations and with varying maturities. It is important that they bear interest at rates approaching yields on alternative uses of capital—say 6%-10%—though to minimize conflict with religious traditions regarding usury the bonds should probably be in discount form. Consideration might be given to a lottery feature as a means of increasing the attractiveness of the securities.

APPENDIX A Expenditures, Ordinary Budget of Central Government, 1945-54[a]

(Thousand £S)

Item	1945	1946	1947	1948	1949	1950-51[b]	1951-52[b]	1953	1954
Presidency	291	756	271	241	176	324	391	2,080	429
Council of Ministers									
Presidency of Council of Ministers	873	1,735	2,810	672	645	789	2,248	*	1,571
Office of Inspection	—	—	—	—	—	—	148	95	120
Disciplinary Council	—	—	—	—	—	73	74	45	56
Directorate of Propaganda & News	—	—	—	—	353	504	254	280	441
Division of "Fetwa" and Religious Instruction	225	223	288	336	338	532	397	410	444
Administrative Council	70	67	73	59	57	70	—	—	—
Legislative bodies									
Chamber of Deputies	1,586	1,479	1,312	1,703	961	2,182	824	499	1,300
Office of Accounts	96	93	120	133	165	261	346	322	400
Supreme Court	—	—	—	—	—	83	58	—	168
Ministry of Foreign Affairs	1,520	2,518	2,050	2,925	2,406	2,700	4,747	4,097	4,383
Ministry of National Defense	16,444	27,814	20,785	44,839	49,319	102,494	104,587	65,997	75,427
Ministry of Finance									
Ministry proper	3,822	5,013	5,708	5,582	5,466	8,632	10,811	7,765	7,834
Govt. Printing Press and Official Gazette	194	176	245	227	451	462	583	547	748
Public debt[d]	5,329	7,968	6,540	8,028	10,130	16,191	26,265	15,118	20,700
Ministry of the Interior									
Ministry proper	1,982	1,932	1,385	1,836	1,736	2,639	2,589	2,127	2,120
Gendarmerie	11,782	10,670	11,201	12,675	11,608	15,633	16,523	21,339	9,000
Police and public security	3,663	3,564	4,342	5,342	4,381	7,114	8,084	5,882	5,865
Directorate of Tribes	1,170	3,125	2,081	182	161	227	123	107	117
Ministry of Public Health	3,413	2,628	4,220	3,444	3,885	5,291	7,459	6,374	8,764
Ministry of Justice									
Ministry proper	2,739	3,078	3,559	3,753	3,754	5,624	6,285	4,489	4,435
Directorate of Real Estate Registration	1,283	1,303	1,483	1,673	1,535	2,235	2,525	2,737	2,749
Juvenile reformatories	—	—	—	—	—	—	—	—	238

APPENDIX A (CONT.) Expenditures, Ordinary Budget of Central Government, 1945-54[a]

(Thousand £S)

Item	1945	1946	1947	1948	1949	1950–51[b]	1951–52[b]	1953	1954
Ministry of National Economy									
Ministry proper	13,111[e]	412	117	1,315	385	804	1,022	726	962
Directorate of Labor and Social Affairs	—	—	—	—	279	313	471	446	565
Ministry of Agriculture									
Ministry proper	2,848	3,561	4,096	3,384	3,006	5,440	5,025	4,208	4,523
Agriculture and veterinary schools	81	145	264	510	585	414	487	894	1,258
Ministry of Public Works									
Ministry proper	14,667	19,718	31,100	16,889	16,429	16,860	16,786	14,500	17,243
PTT	1,507	1,783	—	—	—	—	—	—	—
Ministry of Education	10,401	12,790	17,797	20,536	22,749	36,224	46,872	35,903	37,097
Total	99,107	112,552	123,232	136,286	141,120	234,144	266,024	196,976	209,075

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[a] For 1945, 1946, and 1947, closed accounts; for 1948, 1949 and 1950–51, provisionally closed accounts; for 1951–52 and 1953 preliminary figures available at the General Accounts Section, Department of Budget and Financial Control; for 1954, budget estimates. Items are grouped as they are in the corrected budget of 1954.

[b] Calendar years except for two 18-month periods: January 1, 1950–June 30, 1951; and July 1, 1951–December 31, 1952.

[c] Merged with the Presidency.

[d] Includes pensions, indemnities, subsidies, etc., and in 1954 £S 7,650 thousand to cover exchange differential on petroleum imports at official exchange rate.

[e] Includes losses on distribution of bread at reduced prices as follows: 1945, £S 12,240 thousand.

NOTE: Figures are exclusive of additions to reserve fund.

SOURCE: Department of Budget and Control, Ministry of Finance.

APPENDIX B Receipts, Ordinary Budget of Central Government, 1945-54[a]

(Thousand S£)

Item	1945	1946	1947	1948	1949	1950-51[b]	1951-52[b]	1953	1954
Schedular income taxes									
Industrial, commercial, and non-commercial trades and professions	6,574	4,090	3,681	2,948	4,574	6,863	10,172	11,808	9,750
Salaries and wages	1,353	1,339	1,540	1,951	2,264	3,115	4,064	3,235	3,400
Circulating capital	26	76	37	83	70	131	147	157	200
Tax on non-agricultural real estate	2,095	2,170	2,217	2,266	2,421	4,730	6,997	5,626	5,500
Business and professional license tax (temettu)	1,290	1,304	1,434	1,599	1,830	2,921	3,513	2,887	2,975
Miscellaneous direct taxes	2,103	2,259	2,273	1,019	1,149	1,881	3,097	2,137	2,975
Agricultural production tax	9,256	12,983	9,131	12,435	12,901	20,418	34,795	22,338	22,000
Livestock tax	8,441	9,532	7,041	6,428	6,021	6,397	14,877	8,065	9,000
Excise taxes									
Consumption of petroleum products	6,039	7,823	10,236	8,270	11,018	16,509	20,000	14,860	15,000
Sugar	8,905	11,200	6,093	7,857	9,226	14,005	11,064	9,295	8,000
Tobacco monopoly	16,400	14,855	3,814	8,850	13,087	18,147	22,215	19,243	17,000
Other	9,948	13,439	13,437	9,095	4,838	8,214	6,009	19,047	19,750
Customs duties	9,053	25,540	35,854	34,046	41,517	49,634	64,141	42,224	37,832
Registration fees	1,544	2,133	8,041	8,941	9,261	16,756	28,855	24,134	21,000
Proceeds of state property	1,861	1,980	1,629	1,494	1,444	2,096	8,160	6,782	5,000
Industries	3,747	4,638	434	396	295	500	615	711	800
Revenues from public services									
Exchange office	—	—	705	250	100	9,830	8,310	[c]	4,150
Petroleum revenue	257	305	305	305	1,982	2,451	4,475	12,134	6,500
Other	28,211	4,136	5,362	5,325	10,592	21,825	15,590	10,312	9,591
All other	1,056	912	1,525	1,746	769	1,219	3,993	935	870
Total	118,287	120,732	116,189	116,084	136,097	208,314	271,687	216,651	202,000

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[a] For 1945, 1946 and 1947, closed accounts; for 1948 and 1949, provisionally closed accounts; for 1950-51 and 1951-52, and 1953, preliminary figures available at the General Accounts Section, Department of Budget and Financial Control; for 1954, budget estimates.

[b] Calendar years except for two 18-month periods: January 1, 1950–June 30, 1951; and July 1, 1951–December 31, 1952.

[c] Included with "Other revenues from public services."

NOTE: Figures exclusive of withdrawals from reserve fund and loans from Issue Department.

SOURCE: Department of Budget and Financial Control, Ministry of Finance, and Directorate of National Revenue, Ministry of Finance.

652

ANNEX E NOTES ON AGRICULTURAL INSTITUTIONS

I AGRICULTURAL BANK OF SYRIA

General

653 652 Of the estimated £S 100 million–£S 120 million of agricultural credit outstanding in 1953, some 10-15% was furnished by the private commercial banks (including the Commercial Department of the BSL), probably 50% by moneylenders and merchants, and somewhat more than 35% by the Agricultural Bank of Syria. In view of its future role the mission adds the following note on the ABS. The other sources of credit are dealt with in the Main Report.

652 654 The Agricultural Bank operates throughout Syria. In addition to its central Damascus office it has three main branches, in Aleppo, Latakia and Deir ez Zor, and 27 sub-branches in the more important towns. The facilities, however, are not adequate to channel an adequate volume of loans down to the level of the small farmer.

The ABS is a governmental institution, administered by a General Director and a board of nine directors, six representing respectively the Ministries of Finance, Agriculture and National Economy, and the Chambers of Agriculture, Industry and Commerce, and three selected by the Council of Ministers. Since 1950 the functions of the ABS have been considerably broadened. In addition to making loans to farmers, it now performs such extra-banking functions as purchasing and selling seeds, insecticides, and machinery, purchasing land and helping small farmers develop improved farm practices, and importing agricultural equipment. At present, it does not make loans directly to cooperatives. Loans have been granted to individual members with the joint guarantee of other members rather than to a cooperative association itself (the Bank Act, as redrafted (see below), would empower the ABS to lend directly to cooperatives). The limitations on extending loans for agricultural purposes are not to be found so much in the functions of the Bank as in the provisions dealing with the conditions under which loans may be granted. A principal objective should be the removal of burdensome restrictions and the substitution of desirable and sound loan policies.

652

Resources for Lending

The resources of the ABS available for lending are derived from the capital and reserve of the Bank, borrowings and, to a minor extent, deposits. In Table 1 these resources are shown for the period 1947-1953. The capital was derived from the 4% share of the agricultural production tax turned over to ABS until 1950, and the £S 10.2 million which the government gave the Bank on June 30, 1950. The latter amount represented the proceeds of a loan from the BSL, which the government undertook to repay in lieu of turning over a part of the agricultural production tax to the ABS. This transaction, together with earnings, increased the capital and reserve of the Bank to £S 22 million by 1952.

TABLE 1 Sources of Funds Available to the Agricultural Bank of Syria, 1947–1953

(Million £S)[a]

End of financial year[b]	Capital and reserve	Borrowing from			Deposits	Total
		Govt.	MIRA	BSL		
1947	9.0	3.9	2.9	—	.1	15.9
1948	9.5	2.9	2.3	—	.1	14.8
1949	10.2	2.3	2.8	—	.1	15.4
1950–1951	10.9	5.6	2.3	1.6	.2	20.6
1951–1952	22.0	3.2	—	8.6	.7	34.5
1953	22.1	10.7	1.7	5.9	.8	41.2

[a] The figures in this and the following tables which deal with the operations of ABS are from official records of the Bank.

[b] Calendar years except for two 18-months periods, viz: January 1, 1950–June 30, 1951, and July 1, 1951–December 31, 1952.

The loans from the government agency MIRA (now the Cereals Office) and from the BSL were for the specific purposes indicated in Table 2. For instance, in 1949 seed wheat was secured by MIRA and in 1950 and 1952 agricultural machinery and cotton dust were handled for this agency. In the case of farm machinery the ABS by decree was authorized to take over machinery that MIRA was unable to sell at auction, the value of the machinery being considered an interest-free loan. In its transactions with MIRA the ABS acted as agent, receiving a commission of 4%.

652 TABLE 2 Loans by Agricultural Bank for Special Programs
654 Authorized by Government, 1950–53

	1950–1951		1951–1952		1953	
	Number of loans	Value (thousand £S)	Number of loans	Value (thousand £S)	Number of loans	Value (thousand £S)
Machinery loans (MIRA)	809	3,710	42	175	4	6
Relief to olive growers	2,757	1,183	3,067	508	—	—
Cotton seed advance	—	—	—	—	233	131
Combating cotton worm	—	—	5,923	2,745	1,115	512
Seasonal loans	—	—	1,394	1,150	6,440	6,123
Relief to drought-stricken areas in South	—	—	13,977	5,287	—	—
Machinery loans (Agricultural Bank)*	—	—	670	5,213	124	544

* These loans are for machinery purchased and sold directly by ABS in contrast to the MIRA machinery loans shown above.

The short-term or seasonal loans from BSL are at 2½% interest, the amount outstanding at the end of 1953 being £S 5.9 million. The BSL functions as a central bank in its transactions with the ABS, there being no national central bank in Syria at the present time.

Machinery loans have been of most aid to large farmers, while the seed, insecticide and relief loans have been helpful to all types of farmers.

Lending Practices and Policies

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The Agricultural Bank may make loans against the security of a real estate mortgage, a joint guarantee of several individuals, a chattel mortgage on crops, Treasury bonds, gold and certain types of commercial paper. In practice, however, loans have been advanced only on real estate mortgages and joint guarantees. This has meant a restricted loan policy. For instance, the ABS has not been in a position to make direct loans on crops or chattels, to finance cooperatives effectively, to extend credit to new land settlers, or adequately to meet the credit needs of the small farmer.

Table 3 shows the loans of the ABS by type of security for the period 1947-1953. It reveals no marked trend in the use of the mortgage or the guarantee as security, except that recently the number of joint guarantee loans has increased. These outnumber the real estate mortgages, although the latter are still the predominant form of security from the point of view of amount involved. Emphasis on formal security for loans, rather than on supervision of loans and their devotion to purposes that would improve the economic position and creditworthiness of the farmer, militates against the small owner and tenant farmer, who cannot provide adequate security. This emphasis is inevitable as long as there is no system of supervised credit.

TABLE 3 Loans Made by the Agricultural Bank of Syria According to Type of Security, 1947–1953

Year	Real estate mortgage		Joint guarantee	
	Number	Value (thousand £S)	Number	Value (thousand £S)
1947	4,484	3,684	9,000	2,124
1948	2,240	1,664	2,556	473
1949	1,982	1,577	2,216	350
1950–51[a]	5,057	3,980	7,960	1,347
1951–52[a]	7,213	6,398	10,344	1,880
1953	4,922	4,149	8,541	1,483

[a] 18-month periods.

The record of collection on loans is excellent; foreclosures are rare. From 1947-1953, the net profit of the Bank increased from £S 227,986 to £S 1,239,071, and for 1953 it was slightly more than 6% on the outstanding capital and reserve.

The loans of the ABS outstanding at the end of the fiscal year from 1947 to 1953 are shown in Table 4. Long-term loans, from 3 to 15 years, increased by about £S 7 million during this period. These loans were made for land purchases and improvements, building of dwellings and purchase of farm machinery and livestock. Loans for the latter purpose have been provided for a period not exceeding five years and account for a large part of the increase.

Farm machinery loans also account for a considerable increase in medium-term loans, from one to three years. Short-term or seasonal loans, 652 up to 12 months, are for seeds, tools, fertilizer and working funds. It was not until after 1950 that the ABS undertook to extend this type of credit.

It is to the small- and medium-sized farmer with good security that most of the loans are granted. No one borrower may receive more than £S 7,500, and for loans in excess of £S 3,000 it is necessary to secure approval from the main office at Damascus—an involved and time-consuming procedure. This often deters large landowners from applying for loans.

ABS credit for the sharecropper and the very small landowner with only moderate security is also difficult. Loans may be made on only 60% of the value of land (40% if planted to trees). This class of potential borrower cannot afford the loss of time and the cost of spending several days in the city to negotiate a small loan on the low value of his property. It is much more convenient to turn to the moneylender for credit.

TABLE 4 Kind, Number and Value of Agricultural Bank Loans Outstanding at End of Selected Financial Years

Kind of loans	1947	1949	1951	1953
Long-term loans				
Number outstanding	38,642	39,613	21,778	47,642
Amount of loans outstanding	13,378	13,773	12,435	20,453
Medium-term loans				
Number outstanding	16,680	17,847	24,135	35,374
Amount of loans outstanding	3,092	2,931	3,717	4,971
Short-term loans				
Number outstanding	—	—	21,496	29,413
Amount of loans outstanding	—	—	7,630	16,754
All loans				
Number outstanding	55,322	57,460	67,409	112,429
Amount of loans outstanding	16,470	16,704	23,782	42,178

NOTE: All value figures in thousand £S.

Loans to cooperatives are made only with the guarantee of individual members and may not exceed £S 30,000. Such loans as have been granted are for altogether too short a period to be of effective use. However, the ABS hopes to grant much more credit to cooperatives and to enable them over a period of time to take over the bulk of the seasonal and medium-term loans to farmers. It is recognized, however, that cooperatives will develop only slowly.

Effectiveness of Operations

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One of the outstanding weaknesses of the ABS is that an adequate volume of credit is not getting down to the level of the small- and medium-sized farm operators who could profit most by the wise use of credit. Although the difficulties arise in part from restrictions on lending practices and policies, it is also true that the ABS is not set up to service this group of farmers effectively. Remedial action lies largely in a revitalization of the Bank's charter, the active support of farmers' cooperatives and a program of supervised agricultural credit. This calls for an organization closer to the village level.

More of the funds of the ABS should be used for loans which would increase agricultural production and strengthen the position of the small farmer. But loans must be kept on a sound basis and the rate of expansion should not impair this policy. Seasonal or short-term working capital resulting in increasing farm income is a highly desirable phase of a program of supervised agricultural credit. Under the present system the advisability of the plan for using the loan is left to the judgment of the farmer. Under a system of supervised credit, the loan would be granted in relation to a farm and home plan developed jointly with the farmer. The prospect of repayment would be greater than it is when loans are granted merely on collateral or collective guarantee.

The ABS practice of engaging in the purchase and sale of machinery, seed and insecticides should be judged in the light of the situation in Syria. The arguments advanced in favor of these transactions are that private machinery dealers have a very high price mark-up, while the ABS's is much less, and that the practice has insured better seeds and adequate insecticides. On the other hand, these are services which, over a period of time, might better be taken over by private enterprise. The ABS might then concentrate on its main function—the making, servicing and collection of loans.

Recommendations

The mission adds the following to the observations and recommendations in the Main Report.

The basic Agricultural Bank Act should be re-enacted along the lines proposed by the Committee to Redraft the Bank Act. As redrafted, the Ac

● 652 stresses the establishment of credit cooperative societies or associations, the granting of loans directly through cooperatives, the making of loans against warehouse receipts, the extension of more seasonal loans for productive purposes, and the making of intermediate- and long-term loans for land reclamation and development. Loans could be made without mortgage or joint guarantee security. Another significant proposal is that the Board of Management of the ABS would enjoy, within a legal framework far less restrictive than the present act, the "widest authority in the management of the bank." For instance, the Board would have wide powers in issuing its own by-laws. The mission recommends that the by-laws include procedures for a program of supervised agricultural credit and for the fostering of cooperative agricultural credit. The operational requirements for a sound and dynamic credit program must be clearly set forth, otherwise the hazards of losses would be great.

Loans to a farmer should be based on the size of his farm, the type of farming practices he follows, his personal characteristics and the degree of farm planning as reflected in the income of the farm. In addition, loans should be extended at the appropriate time and with due consideration to outstanding indebtedness. To maintain the farmers' income-producing ability credit must be available when needed, as at the appropriate time during the planting season, to meet recurring needs during the growing season, and to provide emergency funds for unforeseen severe attacks of insects, bad harvests, and other similar emergencies. In the case of supervised loans the time required to prepare farm plans, and to submit loan applications and secure their approval will determine the period that must be devoted to advance planning, so that farmers will receive their loans on time and a schedule of advances may be set up to meet the farmers' needs. For supervised loans a schedule should be prepared of both the amount and time of the receipt of income. The time of repayment should then be set in relation to this schedule. If for good reasons loans become delinquent the repayment schedule may be modified.

With the exception of emergency loans the making of loans to farmers with outstanding indebtedness may result in pyramiding the debt structure on an unsound basis. However, it is sound policy to assure or take over a reasonable amount of outstanding indebtedness, particularly in the case of members of a cooperative association. Not to refund a reasonable amount of old indebtedness of a borrower may well place him at the mercy of moneylenders, and thus undermine his creditworthiness. But the refunding of old debts in relation to a new loan must be carefully considered. It 652 should be obvious that supervision may be necessary throughout the period of the loan. Furthermore, it may be desirable to extend the repayment of certain old debts over a period of years.

We have emphasized in the Main Report that legislation should be considered to provide for the relief of old agricultural indebtedness. Many capable farmers cannot be made creditworthy under any system of credit until they are in a position to make a new start in life.

Loans should be made in kind only when it is necessary to insure their use for a specific purpose and when the government has found it necessary to monopolize the supply of certain farmers' requisites, e.g., cottonseed. Such loans must be in first-rate products.

In order to carry out the type of credit program envisaged by the government, the ABS will need to bring its services to the farmer. Thus the regional banks should have a number of field credit offices from which, in cooperation with the regional banks, loans will be made, serviced and collected. Part of this task might well be done by opening up temporary field offices in larger villages before the planting season and again during and following the harvest period.

Ultimately the ABS and the village cooperatives should be owned and 652
operated by farmers. These institutions must therefore accumulate their 474
own capital if they are not to remain merely channels for the extension of government credit to farmers. The ABS itself could do much to promote additional savings through credit cooperatives. Over a period of years the development of practices of thrift will lead to substantial capital accumulation for the use of farmers. The capital of a cooperative credit society should be invested in capital expansion or deposited in the ABS. When a credit society is a part of a multi-purpose cooperative, it can use any earnings or savings to best advantage within its own organization. It may be desirable, and in fact necessary, for the ABS to establish some local credit societies as an arm of its organization in the extension of loans to farmers. In the latter case, savings and earnings for use of members would presumably be under the control of the ABS, but should be, insofar as possible, administered by an independent organization.

It is also desirable that cooperative associations retain their earnings and investments by restrictions on declarations of dividends, and by not permitting ready refunding of membership stock. The 2% profit made by cooperatives on loans would be another source of capital and credit.

and exports was subjected to the approval of the Council of Ministers. This 651
was followed by the withdrawal of embargoes on various non-competitive 652
imports, higher tariffs being substituted in some cases. 439

As of autumn 1954 all embargoes on imported goods which directly compete with national products were still in effect, with the exception of the embargo on men's shirts, underwear and pyjamas. Imports of cotton gins are forbidden, to prevent further overexpansion of the ginning industry, and the importation of second-hand looms and knitting machines is prohibited, to ensure the installation of new and modern machinery; importation of almost all items, including machinery, is still subject to licensing. There has been almost no change in the list of prohibited exports or of those which must be licensed. Although the export tax on wheat has been repealed, cotton exports are still taxed; there were certainly good financial reasons for this, but it means in fact a continuation of the element of protection which this duty represents, in favor of the local cotton processing industry. On the other hand, products subject to an embargo or high protective duties are no longer subject to price control. The government is now relying on the effect of internal competition.

Credit Facilities

During the mandate, in 1929, the Syrian Government instructed the 652
Minister of Commerce and Agriculture to establish an industrial bank 433
with a capital of £S 500,000, in which the government was to participate; this was never done.[8]

Not until 20 years later, in June 1949, was the Minister of Finance authorized to guarantee loans to Syrian industrial corporations (*sociétés par actions*) for their first installation or to enable them to continue operations. The amount to be reimbursed under the guarantee could not exceed half the paid-up capital of the corporation and the period of repayment was not to be longer than three years. Eligibility of applicants, their needs and the conditions of both loan and guarantee were to be determined by a special committee; the Minister of Finance was authorized to require a mortgage on the property of the corporation, the mortgage to have preferred position.

Of the 18 loans totalling £S 23.627 million made by January 1952,

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[8] *Le Rôle du Crédit dans le Développement Economique de la Syrie.* Moh. Thome, Madrid, 1953, p. 157.

652 433 seven were for over £S 1 million to 10 corporations. One large Damascus corporation received two loans totalling £S 7 million. The sectors of industry to which loans were made were, in order of magnitude, textiles, sugar refining, vegetable and fruit canning and glass; a minor amount was loaned for manufacture of liquid gas and mechanical equipment. The terms on which all of these loans were made were considerably easier than those prevailing on the capital market, the rate of interest being only 3%.

By the time repayment was due, the general attitude of the government towards industry had become so favorable that beneficiaries, if they wished it, had little difficulty in securing an extension.[8] In 1952, extension of the period of repayment for five additional years was authorized, and "guaranteed companies" might thereafter be allowed to distribute dividends out of net profits in stated circumstances. Any guaranteeing of new industrial loans was forbidden.

By legislation in January 1954, the scheme was revived and even extended to include loans for the financing of big hotels, provided, however, that the total amount of the loans outstanding and guaranteed to industry and hotels should not exceed £S 15 million.

Fiscal Privileges

664 433 Until 1949 fiscal facilities favoring industry were restricted to special customs provision applying to imported tools, machinery, apparatus and materials for industrial requirements; in stated circumstances, they might be subject to a tariff of only 1%.

An act of 1945 exempted new construction, for two years, from the tax on income from real property. In 1950, the exemption was explicitly applied to new factories and workshops, beginning with the financial year following the completion of the projects.

On September 27, 1952, Legislative Decree No. 103 (on the encouragement of industry) granted to all registered industrial establishments, effective with the 1953 fiscal year, the following privileges under certain conditions:

1. exemption from customs duties on machinery, tools and equipment

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[8] It is noteworthy that at that time the large Damascus corporation mentioned above had converted its £S 7 million guaranteed loan in an overdraft of the commercial type with the Banque de Syrie et du Liban. As a result, the total guaranteed amount outstanding had dropped to £S 16.627 million.

654 profitable firms which do not choose to expand. Furthermore, depreciation
433 raises no great administrative difficulties.

651 Our recommendation would provide a fairly effective substitute for income tax exemption, especially the recommendation that the tax on non-agricultural real estate be transformed into a tax on a true net income is also adopted. We realize, however, that a special problem arises in adapting the accelerated depreciation approach to Syrian conditions. Businesses with gross receipts of less than £S 25,000 per year pay an amount equal to 50% of the temettu tax in lieu of the regular income tax. Since these firms do not compute net income or depreciation allowances they could hardly be brought under the general scheme. It is suggested that these smaller firms be allowed to deduct from their tax liability a credit related to the amount of any new investment in buildings, machinery or other industrial equipment.

The present exemption of reserves up to 10% of annual profits which, within two years, are devoted to expansion of the enterprises would seem to be extremely difficult to administer satisfactorily; proper administration would call for careful supervision to assure compliance. This provision could well be eliminated. The law might provide, however, that if deduction of accelerated depreciation after an investment has actually been made produces an accounting loss, the loss might be carried back against income of the two preceeding years. The present law allows losses to be carried forward against income for five years but does not provide for a carry-back of losses.

652 *Credit facilities.* Our principal objections against the scheme of gov-
433 ernment-guaranteed industrial credits can be summarized as follows: (1) It applies only to corporations, thus excluding the large majority of Syrian industrial enterprises, which are not organized in this form, and in effect reserving its benefits to a small group of large companies, although there is no reason to assume that all credit needs outside this group can be met by other means. (2) The limitation of the life of the guaranteed loans to three years (later extended to eight) does not sufficiently allow for adapting the maturity of these loans to the requirements of the projects. As an instrument to facilitate long-term industrial financing the provision may in some cases be too rigid. (3) The 3% interest rate, appreciably below the prevailing market rate, puts the beneficiaries in an exceptionally favorable competitive position as again non-beneficiaries, and may stimu-

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late projects less sound than those which must be financed on a truly competitive basis.

In the Main Report we have set forth the more fundamental objections which point to the desirability of completely abandoning this device rather than merely amending the law. In summary, they are: (1) the inability of a government agency to determine technical and economic soundness of proposed new projects; (2) the inflationary character of the scheme; and (3) the need for an independent institution to provide capital and technical assistance.

Most of the obvious or "natural" industries have been established. What is needed henceforth is (1) expansion of a more selective character, and (2) improvement in the efficiency or a lowering of the production costs in existing industries. There are possibilities for new ventures but they require careful investigation before being initiated. There is accordingly a need for an institution which through its own technical staff or through foreign consulting technicians can investigate such possible new enterprises either on its own initiative or upon request. There are still a number of enterprises, primarily small- or medium-sized, which lag behind in efficiency. It is important that there be a general reduction of costs and prices in order to increase the market at home and abroad. The less efficient enterprises often lack the resources to hire competent engineers and technicians on a permanent basis and they may suffer from deficiencies in machinery and equipment or management. An institution equipped to give or obtain technical advice on the problems of these enterprises could play a useful role. Its technicians might well be able to improve efficiency considerably by analyzing plant layout and working methods, by making time and cost studies and by examining the needs for improved machinery and equipment.

Considering the need of additional facilities to assist the financing of certain investments in agriculture and in modern hotels as well, the mission has recommended in the Main Report the establishment of a predominantly privately owned and independently managed investment bank for industry, agriculture and hotels and for providing technical assistance, primarily to industrial enterprises.

The capitalization of the bank should: (a) bear some relation to the investment possibilities of the institution; (b) permit operations on a scale enabling the earning of sufficient profits; and (c) not exceed the

652 total which reasonable expectations indicate can be raised. In the Main
433 Report we have suggested capitalization of £S 30 million, and suggested
the respective ratio of government and private capital.

The cost of necessary managerial and technical staff might run up to £S 300,000 per year and other costs might rise to the same figure with an increase in the volume of business. Possibly half of the cost of the technical staff might in the long run be recouped from fees for technical services. To economize on operating costs it would be advisable to have the commercial banks act as the bank's agents in receiving applications for loans and disbursing and servicing loans in return for a small commission.

656 *Tariff policy and embargoes.* It is far from clear that the trend toward
431 almost complete protection of industry from the impact of foreign com-
651 petition, qualified to only a limited extent by certain provisions of various
commercial agreements, has reached its limits.

We have previously recommended reconsideration of this policy. Protection of many industries has gone too far in the direction of national isolation; the balance should be restored by giving more weight to international integration. Liberalization of external trade should be one of the items on Syria's economic program.

In making this suggestion the mission is mindful of the fact that Syria's balance of payments position is not very strong and that the condition of the country's gold and foreign exchange reserves obliges the government to proceed with caution. Yet, as long as internal monetary equilibrium is preserved and the foreign exchange policy remains sound, the significance of these limitations ought not to be exaggerated.

We do not recommend immediate termination of the system of licensing imports since it enables the authorities to register at an early date the expected inflow of foreign goods. This may be considered a legitimate precaution, especially if the restriction of licenses is reserved to times when the balance of payments position is endangered. Under licensing, however, discrimination among imports is unavoidable. It should be realized that the need for such a measure indicates that there is something fundamentally wrong with the factors which determine external equilibrium; rather than continuously applying the palliative of direct import restrictions, Syria should try to remedy this situation. Even if direct import restrictions are temporarily unavoidable, they should not preclude remedial action; on the contrary, they should as far as possible contribute to bringing about an improvement in the basic conditions.

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نسبة موازنة المعارف الى الموازنة العامة ، ١٩٢٢ – ١٩٥٢

RATIO OF THE EDUCATION BUDGET TO THE GENERAL BUDGET, 1922 — 1953

Table No. 1 — جدول رقم ١

Year	الموازنة العامة بالليرات السورية General Budget L.S.	موازنة المعارف بالليرات السورية Education Budget L.S.	النسبة المئوية Ratio per cent	السنة
1922	1,653,673	177,974	10.76	١٩٢٢
1924	4,206,717	364,520	8.67	١٩٢٤
1925	5,641,140	441,272	7.82	١٩٢٥
1926	8,041,055	663,922	8.26	١٩٢٦
1927	1,508,630	136,959	9.08	١٩٢٧
1928	3,343,606	194,442	5.82	١٩٢٨
1929	11,259,518	986,141	8.76	١٩٢٩
1930	9,449,056	1,064,860	11.27	١٩٣٠
1931	10,168,744	1,053,290	10.36	١٩٣١
1932	9,502,657	1,048,280	11.03	١٩٣٢
1933	8,464,587	1,077,285	12.73	١٩٣٣
1934	6,982,100	949,257	13.60	١٩٣٤
1935	7,232,365	966,346	13.36	١٩٣٥
1936	7,532,376	954,920	12.68	١٩٣٦
1937	8,353,500	1,229,185	14.71	١٩٣٧
1938	10,247,047	1,613,135	15.74	١٩٣٨
1939	11,352,470	1,842,223	16.23	١٩٣٩
1940	11,884,600	1,911,730	16.09	١٩٤٠
1941	13,603,100	2,272,623	16.71	١٩٤١
1942	22,500,000	3,838,591	17.06	١٩٤٢
1943	36,680,500	6,032,178	16.45	١٩٤٣
1944	69,945,846	7,488,922	10.71	١٩٤٤
1945	103,678,000	9,953,568	9.60	١٩٤٥
1946	129,704,000	14,127,368	10.89	١٩٤٦
1947	125,820,530	16,966,450	13.48	١٩٤٧
1948	127,909,000	20,459,400	16.00	١٩٤٨
1949	130,710,000	22,278,200	17.04	١٩٤٩
1950/51 (1)	215,730,000	38,783,000	17.98	١٩٥٠/١٩٥١ (١)
1951/52 (2)	265,000,000	49,760,000	18.78	١٩٥١/١٩٥٢ (٢)
1953	205,000,000	36,604,000	17,85	١٩٥٣

(1) Period 1.1.50 — 30.6.51
(2) Period 1.7.51 — 31.12.52

(1) المدة ١٩٥٠/١/١ – ١٩٥١/٦/٣٠
(2) المدة ١٩٥١/٧/١ – ١٩٥٢/١٢/٣١

واردات ونفقات الحكومة ١٩٣١ — ١٩٥٤
(بالوف الليرات السورية)

GOVERNMENT REVENUE AND EXPENDITURE 1931 — 1954.
(L.S. '000)

Table No. 1 — جدول رقم ١

Year	نسبة الواردات الفعلية الى التقديرية Ratio of actual Revenue to estimates	الواردات التقديرية Revenue estimates	الواردات الفعلية Actual revenue	نسبة النفقات الفعلية الى التقديرية % Ratio of actual Expenditure to estimates %	النفقات التقديرية Expenditure estimates	النفقات الفعلية Actual Expenditure	الوفر (+) العجز (—) Surplus deficit		السنة
1931	100,1	10,169	10,176	98,4	10,169	10,002	(+)	147	١٩٣١
1932	91,4	9,247	8,454	91.4	9,247	8,453	(+)	1	١٩٣٢
1933	80,2	8,465	6,787	83,9	8,465	7,103	(—)	316	١٩٣٣
1934	95	6,932	6,584	96,4	6,932	6,684	(—)	100	١٩٣٤
1935	95,4	7,232	6,902	94,7	7,232	6,851	(+)	51	١٩٣٥
1936	88,4	7,532	6,661	89,9	7,532	6,773	(—)	112	١٩٣٦
1937 (1)	100,3	9,638	9,665	90,7	9,638	8,747	(+)	918	١٩٣٧ (١)
1938	91,3	12,587	11,490	87,7	12,584	11,041	(+)	450	١٩٣٨
1939	103,8	12,996	13,484	94,8	12,996	21,323	(+)	1,161	١٩٣٩
1940	139,5	13,613	18,990	112,1	13,613	15,257	(+)	3,733	١٩٤٠
1941	106,4	15,614	16,617	90,4	15,614	14,127	(+)	2,490	١٩٤١
1942	116,5	25,786	30,050	98,7	25,786	25,450	(+)	4,591	١٩٤٢
1943	119,4	46,120	55,095	83	46,129	38,301	(+)	16,794	١٩٤٣
1944	119,2	65,584	78,173	99,1	65,584	64,993	(+)	13,180	١٩٤٤
1945	105,5	121,609	128,320	87,9	121,609	106,967	(+)	21,353	١٩٤٥
1946	97,7	132,722	129,666	84,8	132,722	112,545	(+)	17,121	١٩٤٦
1947	99	130,148	128,841	94,7	130,148	123,232	(+)	5,609	١٩٤٧
1948	87	141,827	123,402	96,1	141,827	136,287	(—)	12,885	١٩٤٨
1949	99,6	153,071	152,397	92,2	153,071	141,120	(+)	11,277	١٩٤٩
1950—51	98,9	249,730	246,895	94	249,730	234,841	(+)	12,054	١٩٥٠/٥١
1951—52 (2)	102,1	290,615	296,789	91,4	290,615	265,642	(+)	31,147	١٩٥١/٥٢ (٢)
1953 (2)	103,7	207,902	215,725	94,9	207,092	197,390	(+)	18,335	١٩٥٣ (٢)
1954	—	206,000	—	—	206,000	—		—	١٩٥٤

(1) — As from 1937 revenue and expenditure is in respect of the whole Syrian Republic, including the Mohafazat of Sweida and Alawites.

(2) — Approximate actual revenue and expenditure together with the surplus or deficit.

(١) اعتبارا من ١٩٣٧ اصبحت الواردات والنفقات لكافة الجمهورية السورية بما فيها محافظتي السويداء والعلويين .

(٢) تعتبر النفقات والواردات الفعلية والفرق بصورة تقريبية .

FINANCE

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نفقات الحكومة موزعة حسب الابواب الرئيسية : ١٩٥٠/١٩٥١ – ١٩٥٤

تقديرات الموازنة (بالوف الليرات السورية)

GOVERNMENT EXPENDITURE BY MAIN ITEMS, 1950/1951 — 1954

Budget Estimates

(L.S. '000)

Table No. 4

جدول رقم ٤

ITEMS OF EXPENDITURE	١٩٥٠/١٩٥١(٣) 1950/51 (3)	١٩٥١/١٩٥٢(٤) 1951/52 (4)	١٩٥٣ 1953	١٩٥٤ 1954	ابواب النفقات
Total expenditure	215,720	265,000	207,991	208,000	مجموع النفقات
Presidency of the Republic	322	403	(6) 2,997	(6) 2,584	رئاسة الجمهورية
Parliament	(2)2,638	(2)2,400	1,000	1,300	مجلس النواب
Account Office.	—	—	430	400	ديوان المحاسبات
Presidency of the Council of Ministers	1,678	2,502	—	—	رئاسة مجلس الوزراء
Religious edict and teaching	548	628	455	444	الفتوى والتدريس الديني
The Directorate-General of propaganda and News	207	237	392	441	المديرية العامة للدعاية والانباء
Legislative Council	67	—	—	—	مجلس الشورى
Ministry of Foreign Affairs	3,716	[illegible]	4,530	4,303	وزارة الشؤون الخارجية
Ministry of National Defence	91,323	[illegible]	77,357	*73,540	وزارة الدفاع الوطني
Public debt	15,215	27,343	13,450	20,700	الدين العام
Ministry of Finance	8,113	10,370	9,258	8,572	وزارة المالية
Ministry of the Interior	3,045	3,669	2,705	2,237	وزارة الداخلية
Gendarms (5)	17,426	16,313	9,670	9,367	الدرك (٥)
Police	7,479	8,390	6,300	5,865	الشرطة
Ministry of Health	6,175	8,640	9,376	8,764	وزارة الصحة
Ministry of Justice	5,807	6,363	4,880	4,673	وزارة العدلية
Registration of real estate	2,285	2,069	3,250	2,749	المصالح العقارية
Ministry of National Economy	1,407	1,876	1,660	1,527	وزارة الاقتصاد الوطني
Ministry of Agriculture	5,229	5,567	6,298	5,781	وزارة الزراعة
Ministry of Public Works	17,392	20,974	17,446	17,243	وزارة الاشغال العامة
Ministry of Education	38,783	49,769	36,804	37,097	وزارة المعارف
Reserves	4,116	157		25	اعتمادات احتياطية
Miscellaneous (1)	175	410	—	168	مختلفة (١)
	—	—	—	—	المحكمة العليا

Source : Ministry of Finance.

1 — Including expenditure of the High Court, Civil Service and the Audit Office

2 — Including expenditure of the Accounts Office.

3 — Covering the period January, 1950 — June 1951

4 — Covering the period July, 1951 - December, 1952

5 — As from 1950 the budget of the gendarm force was merged with the budget of the Ministry of National Defence.

6 — As from 1953 the budget of the Presidency of the Council of Ministers has been merged with the budget of the Presidency of the Republic.

المصدر : وزارة المالية

(١) تشمل نفقات المحكمة العليا ومجلس التاديب ومكتب تفتيش الدولة .

(٢) بما فيها نفقات ديوان المحاسبات .

(٣) تشمل المدة الواقعة ما بين كانون ثاني ١٩٥٠ لغاية حزيران ١٩٥١

(٤) تشمل المدة الواقعة ما بين تموز ١٩٥١ لغاية كانون اول ١٩٥٢

(٥) اعتبارا من سنة ١٩٥٠ ادمجت موازنة الدرك مع موازنة وزارة الدفاع الوطني .

(٦) اعتبارا من سنة ١٩٥٣ ادمجت ميزانية رئاسة الوزراء مع رئاسة الجمهورية

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عدد وقيمة القروض التي اسلفها المصرف الزراعي السوري ١٩٤٩ ـ ١٩٥٣

NUMBER AND VALUE OF LOANS ADVANCED BY THE AGRICULTURAL BANK, 1949 — 1953.

Table No. 10 جدول رقم ١٠

Mohafazat	Year	مجموع القروض Total loans		قروض قصيرة الاجل Short-term loans		قروض طويلة الاجل Long-term loans		السنة	المحافظة
		العدد No.	المبلغ بالوف الليرات Value L.S. '000	العدد No.	المبلغ بالوف الليرات Value L.S. '000	العدد No.	المبلغ بالوف الليرات Value L.S. '000		
Total	1949	9,398	3,208	9,116	1,918	282	1,290	١٩٤٩	المجموع
	1950	3,930	6,942	—	—	3,830	6,942	١٩٥٠	
	1951	6,456	10,551	—	—	6,456	10,551	١٩٥١	
	1952	24,374	14,327	19,847	10,640	4,527	3,687	١٩٥٢	
	1953	20,325	12,466	15,403	8,318	4,922	4,148	١٩٥٣	
Damascus	1949	1,326	648	1,254	258	72	390	١٩٤٩	دمشق
	1950	814	1,080	—	—	814	1,080	١٩٥٠	
	1951	936	782	—	—	936	782	١٩٥١	
	1952	3,700	1,447	2,082	689	1,618	758	١٩٥٢	
	1953	2,379	1,449	737	438	1,642	1,011	١٩٥٣	
Homs	1949	546	249	543	234	3	15	١٩٤٩	حمص
	1950	215	501	—	—	215	501	١٩٥٠	
	1951	342	528	—	—	342	528	١٩٥١	
	1952	543	728	317	418	226	310	١٩٥٢	
	1953	755	715	323	381	432	334	١٩٥٣	
Hama	1949	1,324	482	1,294	297	30	185	١٩٤٩	حماة
	1950	190	667	—	—	190	667	١٩٥٠	
	1951	354	525	—	—	354	525	١٩٥١	
	1952	2,595	1,487	2,411	1,289	184	198	١٩٥٢	
	1953	1,627	1,222	1,465	995	162	227	١٩٥٣	
Latakia	1949	265	274	234	169	22	105	١٩٤٩	اللاذقية
	1950	615	810	—	—	615	810	١٩٥٠	
	1951	754	793	—	—	754	793	١٩٥١	
	1952	2,690	2,048	1,849	1,193	841	855	١٩٥٢	
	1953	1,580	1,759	636	1,041	944	718	١٩٥٣	
Aleppo	1949	3,777	872	3,702	477	75	395	١٩٤٩	حلب
	1950	1,411	1,451	—	—	1,411	1,457	١٩٥٠	
	1951	3,212	1,774	—	—	3,212	1,774	١٩٥١	
	1952	8,224	4,509	6,988	3,369	1,236	1,140	١٩٥٢	
	1953	3,897	2,454	2,939	1,337	958	1,117	١٩٥٣	
Al-Hasakeh	1949	112	144	67	4	45	140	١٩٤٩	الحسكة
	1950	176	1,173	—	—	176	1,173	١٩٥٠	
	1951	147	476	—	—	147	476	١٩٥١	
	1952	1,689	1,721	1,681	1,707	8	14	١٩٥٢	
	1953	1,387	1,695	1,352	1,660	35	35	١٩٥٣	

Source : The Syrian Agricultural Bank

المصدر : المصرف الزراعي السوري

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عدد وقيمة القروض التي اسلفها المصرف الزراعي السوري ١٩٤٩–١٩٥٣

NUMBERS AND VALUE OF LOANS ADVANCED BY THE AGRICULTURAL BANK, 1949 — 1953

Table No. 10 (Concld.)

جدول رقم ١٠ (التتمة)

Mohafazat	Year	مجموع القروض Total loans		قروض قصيرة الاجل Short-term loans		قروض طويلة الاجل Long-term loans		السنة	المحافظة
		العدد No.	المبلغ بالوف الليرات Value L.S. '000	العدد No.	المبلغ بالوف الليرات Value L.S. '000	العدد No.	المبلغ بالوف الليرات Value L.S. '000		
Deir-ez-zor	1949	275	126	275	126	—	—	١٩٤٩	دير الزور
	1950	94	567	—	—	94	567	١٩٥٠	
	1951	73	244	—	—	73	244	١٩٥١	
	1952	2,005	1,217	1,811	1,010	194	207	١٩٥٢	
	1953	2,607	1,570	2,351	1,308	256	262	١٩٥٣	
Sweida	1949	35	22	35	22	—	—	١٩٤٩	السويداء
	1950	62	140	—	—	62	140	١٩٥٠	
	1951	203	1,431	—	—	203	1,431	١٩٥١	
	1952	410	1,367	1,284	1,229	120	138	١٩٥٢	
	1953	196	231	1	21	195	210	١٩٥٣	
Dir'a	1949	1,736	361	1,721	231	25	160	١٩٤٩	درعا
	1950	353	533	—	—	353	533	١٩٥٠	
	1951	435	4,018	—	—	435	4,018	١٩٥١	
	1952	2,518	803	2,424	736	94	67	١٩٥٢	
	1953	5,897	1,371	5,599	1,137	298	234	١٩٥٣	

Source : The Syrian Agricultural Bank.

المصدر المصرف الزراعي السوري

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East

SYRIA MDI
Lebanon MEI

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Europe and with the United States; but Lebanon has not moved 648 out of step with the Muslim states around her, and she has followed the Arab League line over Palestine and in Egypt's quarrel with Britain and has not agreed to join a Middle East defence organization. She has, however, received arms and military training from Britain and has gladly accepted Point Four aid from the United States.

The main issue of external policy which exercises the Lebanese is the extent of the country's co-operation with Syria and the other Arab states. Some Christians advocate withdrawing the frontiers of the Republic to those of the old Sanjaq of Lebanon together with Beirut; some Muslims want Lebanon to reunite with Syria, and between these extremes discussion still continues. The disagreement with Syria is economic rather than political, but it might gain political significance if Lebanon were to feel isolated to the point at which she felt compelled to come to terms with Israel. At the moment, this is unlikely because Lebanon's friendship with the NATO Powers is good security against possible incursions of enemies or friends.

Armed Forces[1]

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Syria has compulsory military service of eighteen months and, 701
since Shishakli's advent, the draft net is being cast over many
who previously escaped. The armed services consume each year 652
a growing share of the budget—in 1951–2 they took 40 per 711
cent of the total—and in 1952 there were compulsory collec-
tions for the army. The army is grouped in five brigades, each 702
of rather less than 10,000 men, and has tanks, armoured cars, and light, medium, and anti-aircraft artillery and searchlights. Much of the equipment came from France and, though the best then obtainable, is of doubtful serviceableness. However, Colonel Shishakli is determined to give the army good equipment, and a factory for minor armaments exists near Damascus. German instructors are used by the army and air force and are helping to produce light armaments. The air force is part of the army; jet aircraft have been received from Britain and the air force still operates two Dakotas taken over from Syrian airways. The armed gendarmerie had its own esprit and fought well in Palestine; it is now under army control as are the police and the force used for bedouin control.

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The Lebanese army is about a brigade strong and includes a 701
regiment of chasseurs-ski troops. Lebanese officers have had instruction with the British Army and there is an RAF mission with the Lebanese air force who are using jet trainers.

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[1] In the following sections the two countries are considered together.

3:Royal Institute of International Affairs U-4 (no date)1954 M1 Middle East

SYRIA MDI

investment in cotton growing, prices began to rise once more. 435
At the end of 1951 rising import prices, coupled with the poor 439
grain crop, were reflected in local retail prices, and prices
continued to rise until mid-1952, when governmental action
and steadier import prices had a salutary effect. Thus, generally
speaking, the retail price of household goods has risen five or
six times since before the war, and the currency in circulation
has also risen despite the fact that the official credit policy
has been restrictive; although the note issue is now only £S46
million higher than in 1946 (at 31 December 1951 it was
£S248 million), bank deposits have increased from £S96·2
million at the end of 1949 to £S198·3 million at the end of
1951. At that date the currency was covered, as to gold 9·9
per cent, foreign exchange 6 per cent, commercial bonds 1·4
per cent, treasury bills 33·5 per cent, and state loans or
guarantees 48·9 per cent.

Direct taxation on income and the land accounts for only 651
about a quarter of the Syrian budget;[1] this is less than before 652
the war, for the proportionate amount from the land has fallen
from 30 per cent to about 14 per cent in 1950; the estimate for
1952 was 18 per cent. Receipts from customs duties have increased
considerably and these, with other indirect taxes, have
helped to make the burden less 'fairly' distributed. Indirect
taxes are levied on sugar, petroleum, and other essential commodities.
Budgetary expenditure since before the war has increased
seventeenfold, and since 1949 the total annual expenditure
has increased by more than a quarter; but whereas expenditure
on health, education, and public works has increased
only slightly, that on defence has trebled and accounts for over
a third of total expenditure. Agriculture, with only 2 per cent
of the budget, is insufficiently provided for and it is hoped that
its share will be increased.

Banking is largely but not exclusively in the hands of foreign 453
banks; La Banque de Syrie et du Liban (French) has the concession
for the note issue, but there is talk of starting a Syrian
National Bank; among other commercial banks are La Banque
Nationale pour le Commerce et l'Industrie (French) and the
British Bank of the Middle East. The foreign-exchange market 457
has always been less influential than that of Beirut, but in this
respect Aleppo is growing in importance. There is a recognized
free market for exchange[2] in which merchants and Government
alike deal. The official rate of £S6·19 = £1, used mainly for
Government transactions, was abolished in June 1953 for all
purposes except Government transactions with petroleum com-

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[1] See table 2, p. 502 below.

[2] See table 3, p. 503 below.

3:Royal Institute of International Affairs U-4 (no date)1954 MI Middle East

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LEBANON ME1
SYRIA MD1

TABLE 2

GOVERNMENT BUDGETARY EXPENDITURE AND RECEIPTS

(Years end 31 December; Syria: 1951 only 6 months ending 30 June; 1952, 18 months)

	SYRIA (£S million)				LEBANON (£L million)			
	1939	*1950**	*1951**	*1952**	*1939*	*1950*	*1951**	*1952**
Expenditure	40·85	142·80	67·75	265·00	6·37	84·52	89·45	94·25
Receipts	11·43	138·00	67·75	259·00	7·20	83·21	89·23	94·16
Surplus or deficit	0·58	−4·80	—	−6·00	0·83	−1·31	−0·22	−0·09
MAJOR COMPONENTS OF RECEIPTS AS PERCENTAGE OF TOTAL								
Direct taxes on income and wealth	10	11	8	12	17	15	16	15
Direct taxes on land, produce, and livestock	30	14	10	18		1	1	1
Customs†	1	20	26	22	60	25	24	24
Other taxes‡	36	38	39	34		50	48	48
Total tax receipts	77	83	83	86	77	91	89	88
Other revenue§	23	17	17	14	23	9	11	12
MAJOR COMPONENTS OF EXPENDITURE AS PERCENTAGE OF TOTAL								
Education	15	17	19	19	8	9	12	12
Health	3	3	3	3	4	6	5	5
Defence	—	33	33	42	—	17	20	17
Other current expenditure	63	36	42	29	70	44	43	48
Capital expenditure	19	11	3	7	18	24	20	18

* Estimates. † Until 1943 Syria and Lebanon administered by Mandate authorities; 1944 until early 1950, net receipts divided 56 per cent for Syria and 44 per cent for Lebanon.

‡ General consumption taxes, fees and stamp duties, etc.; indirect. § Includes receipts from public domain and State industrial enterprises.

(SOURCE: UN, *Statistical Yearbook*, 1952.)

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Lebanon ME1
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(*b*) By commodity group

	LEBANON* (£L000)		SYRIA (£S000)	
Animals and animal products	28,457	1,445	8,232	28,216
Agricultural products	94,839	32,057	54,580	89,533
Chemicals	14,810	1,793	16,775	4,063
Textiles (incl. raw cotton)	46,094	20,534	64,334	177,586
Base metals and goods	21,283	6,999	25,028	1,608
Machinery and instruments	29,856	4,053	38,568	809
Transport equipment	13,022	949	19,349	300
Mineral products†	23,754	542	38,791	1,797

* Transit trade excluded (£L1,238,607,000). Exports exclude re-exports (£L19,491,000). Imports include gold (£L38,569,000), and oil from Iraq refined at Tripoli (£L17,103,000).

† For Lebanon, crude oil and oil products only.

(SOURCES: Ministère de l'Economie Nationale, *Bulletin Statistique Trimestriel*, vol. 3, no. 4, Beirut, 1953; Bureau de Documentations Syriennes et Arabes, *Etude Mensuelle sur l'Economie et le Marché Syriens*, Damascus, May 1953; G.B., Board of Trade, Special Register Information Service.)

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TABLE 5

SYRIA: BALANCE OF PAYMENTS, 1950–1*

(£S million)

		1950	*1951*
A.	Goods and Services		
	Exports, f.o.b.	270	292
	Imports, c.i.f.	−338	−418
	Trade balance	−68	−126
	Foreign travel	..	1
	Transportation	..	5
	Government, not included elsewhere	..	−1
	Other services	56	59
	TOTAL	−12	−62
B.	Private donations and capital movements		
	Migrants' remittances	10	10
	Capital	9	12
	TOTAL	19	22
C.	Special official financing		
	Saudi Arabian loan	—	15
	UN Relief and Works Administration	10	11
	TOTAL	10	26
D.	Net errors and omissions		3
E.	Deficit (−) (A through D)		−11
F.	Compensatory official financing		
	Short-term assets, net (increase −)		5
	Monetary gold (increase −)		6
	TOTAL		11

* No sign indicates credit; minus sign indicates debit.

(SOURCE: IMF, *Balance of Payments Yearbook*, vol. 4, 1950–1, p. 255; based on official statistics.)

29:Dunn S-4 (1952)1952 Ml Middle East
Syria MDl

COTTON IN SYRIA

ment, and the investors, inexperienced in farming and unequipped to deal 454
with adverse weather, lack of water, and heavy insect infestation, obtained 241
low yields. Many lost their own capital and borrowed money.

Some investors, who realize that their only chance of coming out on their original investment is to continue their operations and even to make additional investments, plan to expand operations. Future investment naturally will depend on current earnings which will be determined by production and world market prices.

Farmers who may be in a position to continue investing in agricultural development out of their own capital, however, will be a small minority. The need for credit will be great.

Limited credit usually is given to tenants by the landlords during the 452
spring and summer, but most farmers need more. In the past, additional
production credit has been extended largely by the merchants and money- 426
lenders at rates from 15 to 50 per cent annually. A few large landlords
borrow money from banks at rates as low as 7 and 8 per cent, but only against
excellent securities. Interest rates to the tenants who have less collateral
are usually higher. Merchants are discontinuing the practice of buying cotton
before the crop is made at prices from 50 to 70 per cent of the future market [455]
price because in many cases the farmers do not make enough cotton to fulfill
their contract.

The government has sought to meet the need for credit by creating an 652
agricultural bank, but the capital is limited and size and volume of loans are 452
small. In 1951, for instance, the bank loaned a total of only $5 million to
57,000 cultivators. Private groups are said to have loaned as much on cotton
in the Jezira alone.

LAND TENURE

Land available for cultivation is plentiful, but confused titles, excessive 423
concentration of ownership, and insufficient or restricted use of the state
domains hamper development.

The government has a major interest in agriculture and the tenure 423
problem. The Ministry of Justice reports that 23 per cent of the farm land
is owned by the state and in some of the larger farming areas the percentage 471
runs as high as 69 per cent. There is also a heavy concentration of land in 241
large units owned and operated by a few wealthy landlords, with 29 per cent
of the farm land in farms over 250 acres. Most of the large farms in the old [427]
agricultural areas are operated on a tenancy system, but many of the farms
now being established in the new areas of the Jezira are operated on a day- [464]
wage basis with mechanical equipment. This is especially true of wheat farms.
A strong middle class of farmers owns about one-third of the land in farms
from 25 to 250 acres, and many of them cultivate their land with the help of
tenants. Only 15 per cent of the farm land is owned in lots less than 25 acres.

In an effort to encourage landownership, stability of tenure, and an 425
interest in improvement of the land, a law was passed recently under which
state lands are to be sold on long-term, easy-payment plans to landless 471
farmers with a limit of 123 acres to a farmer. The plan was designed 311
especially to settle the nomads. The principal areas concerned are the state [166]
domains in the valleys of the Euphrates and Kabur Rivers, which were un-

44:Matthews and Akrawi S, G-3 (1945-1946)1949 Ml Middle East

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municipalities, and the majority were, and are still, rented buildings, the 871
rent being paid from the central budget. Salaries and other expenses are 658
also paid from the funds of the Ministry of Education.

Table 56 gives a picture of the growth of the educational budget since 871
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TABLE 56

GROWTH OF THE EDUCATIONAL BUDGET, SYRIA, 1923–46

Year	General Budget	Educational Budget	Percent of General Budget	Number of Government Schools	Enrollment in Government Schools
1923*.......	£S 3,970,640†	£S 361,914	9.1	310	22,443
1931*.......	11,932,693	1,170,892	9.8	479	45,491
1941†.......	13,603,100	2,272,623	16.7	...	...
1945‡.......	103,678,000	9,953,568	9.6	694	93,727
1946‡.......	129,704,000	14,127,388	10.9	...	...

* Actual expenditure. Figures from the annual *Rapports sur la Situation de la Syrie et du Liban* (published by the French Government).

† The rate of exchange of the Syro-Lebanese pound was £S2.18 to the dollar in 1946.

‡ Estimates. Figures from the Ministry of Education.

the early days of the French mandate. Although the table shows a very large increase in budget allotments for education from £S361,914 in 1923 to £S14,127,388 in 1946, these figures should not be taken at their face value. The Syro-Lebanese currency, being based on the franc, had fluctuated in value along with the franc until 1943. Moreover, the increased amounts for 1945 and 1946 show clearly the influence of inflation. The budgetary provisions, therefore, are not based on the same rates of value. For this reason it would not be correct to say that the budgetary provision for education in 1946 was about thirty-nine times that of 1923. About the only thing that can be said is that the Syrian government, anxious in this era of independence to expand public education, is giving generously to the Ministry of Education. A budget of about £S16,000,000 was planned for 1947.

It will be seen from Table 56 that the percentage of the educational budget to the general budget has fluctuated from 9.1 to 16.7. In spite of the rapid increase in the general budget, the educational budget, while growing remarkably in the last four years, did not keep pace with the general budget. The percentages declined from 16.7 in 1941 to 9.6 in 1945 and picked up somewhat in 1946. This is a phenomenon that has been common in most of the other Arab states in the last few years. The 1945 budget was supporting 694 public schools of all types and 93,727 pupils in these schools, representing respectively 2.2 and 4.2 times the number of public schools and number of pupils in 1923.

The distribution of the budget over the various fields of public education in 1945 is shown in Table 57.

44:Matthews and Akrawi S, G-3 (1945-1946)1949 MI Middle East
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*871 In the year 1944–45 there were 85,540 pupils in the public primary schools and 6,331 in the public secondary and teacher-training institutions. Thus, the average per pupil cost of a public primary school was £S61 (about $28) while that for a secondary or teachers-college pupil was £S278.6 (about $127.30). The latter figure includes the expenditure for boarding students both in some of the secondary schools and in the teachers colleges. Primary education is free. In secondary education fees are charged at the rate of £S48 for intermediate schools and £S60 for secondary schools (upper two classes) with exemptions to be detailed later. Boarding students pay a fee of £S300 in addition. In vocational schools no tuition fees are charged, but boarding students pay a boarding fee of £S240 per year, although some students receive free board and lodging. Education in the teachers colleges is entirely free, students not only receiving free board and room, but also £S15 a month for pocket expenses. Day students receive £S50 a month toward their board and lodging and £15 for pocket expenses. In the Syrian University tuition fees of £S120 are charged, but with about 25 percent of the students exempted. Additional fees are levied for the library and for physical education.

TABLE 57

BUDGET OF THE MINISTRY OF EDUCATION, SYRIA, 1945

Allocated to	Amount	Percent
Administration	£S 402,052	4.0
Primary education	5,220,000	52.5
Secondary and teacher education	1,763,720	17.7
Vocational education	630,596	6.3
Higher education and other cultural institutions	1,937,200	19.5
Total	£S9,953,568	100.0

• [652 Revenue from fees goes to the Treasury and cannot be used directly by the schools or the Ministry of Education. Expenditure follows strictly the provisions of the budget.

The financial problem which public education in Syria faces is the same as that of the other Arab countries—to find the funds necessary to put into effect a program of universal education. So long as almost total reliance is placed on the central government budget, little hope can be entertained of reaching that goal. With the budget of the central government so pressed by the requirements of the various departments and agencies of the state, it is not possible to expect more than a limited increase in the budget provisions for education. The proposal, therefore, has been made that the way out of this situation is by the imposition of a

57: Davis S-4 (no date)1953 Ml Middle East
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(4) To define the limits of municipal districts in the Muhafazats. 642 631

(5) To institute and organize exhibitions.

(6) To encourage tourism, summer resorts and to supervise hotels.

(7) To organize local communications.

(8) To utilize mineral waters.

(9) To promote a forestation and planting of trees.

(10) To protect beneficiary works and contribute to them.

(11) To organize and exploit hunting and fishing in the sea and rivers.

Art. 130. (1) The special revenues of the Muhafazat necessary for the implementation of its projects shall consist of—

(a) A percentage to be determined by law, such percentage to be taken from general taxes collected in the Muhafazat or added thereto.

(b) Local duties which the Muhafazat Council shall impose within the limits of law. These duties shall in no way delay the movement of persons or the transfer of capital between the various Muhafazats and shall not restrict the right of citizens to practice their professions and perform their work in the country.

(2) The special accountability of the Councils of the Muhafazats shall be regulated by a law.

Art. 131. The Muhafazat Council shall determine disbursements in questions falling under its jurisdiction.

Art. 132. The Rules of Procedure for the Councils of the Muhafazats, adoption of decisions and supervision of their actions shall be determined by law.

Chapter VII

FINANCES

Art. 133. (1) The Government shall prepare the general budget. 642

(2) The Chamber of Deputies alone shall have the right to 652 adopt it.

Art. 134. (1) There shall be for each fiscal year one general budget containing the receipts and expenditures. No special, independent or additional budget may be created except by virtue of a law.

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(2) The Government may, when necessary, submit the project of an extraordinary budget for more than one year including extraordinary receipts and expenditures. Such a budget shall not come into force except when approved by the Chamber of Deputies.

Art. 135. The procedure for organizing, approving, implementing and closing the accounts of local budgets shall be determined by a law.

Art. 136. (1) The beginning of a fiscal year shall be fixed by a law.

(2) Three months at least before the beginning of each fiscal year, the Government shall submit to the Chamber of Deputies a project for the general budget of that year.

Art. 137. The Deputies shall vote on ordinary and extraordinary budgets article by article.

Art. 138. (1) The budget law shall include only pure financial provisions.

(2) No taxes shall be levied or services created which may necessitate new expenditures in the budget law.

(3) The provisions of the budget law shall only be implemented within the fiscal year for which that budget was designated.

Art. 139. (1) During the discussion of the budget the Chamber may not increase the proposed total of receipts and expenditures.

(2) The budget committee shall be entitled to modify the project of the budget provided consideration is taken of paragraph one of this Article.

(3) The Deputies shall not propose an increase in expenditure or the creation of a new item of expenditure once the budget committee completes its report on the project of the budget.

(4) After approving the budget, the Chamber of Deputies may adopt laws approving further expenditures and creating new receipts to meet them.

Art. 140. If the Chamber of Deputies has not given a final decision on the project of the budget before the beginning of the fiscal year for which that budget was designated, provisional monthly credits, calculated on the basis of one-twelfth of the preceding fiscal year, shall be opened in virtue of a decree taken by the Council of

57: Davis S-4 (no date)1953 Ml Middle East
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Ministers. During this period, income shall be collected in conformity with the laws in force at the end of the previous fiscal year. 642 652

Art. 141. (1) The Government shall not exceed in expenditure the maximum limit estimated for each public administration. The budget law must not include a provision enabling the Government to exceed that limit.

(2) No new, additional or transferred credits shall be opened except by virtue of a law.

Art. 142. The final accounts for the fiscal year shall be submitted to the Chamber of Deputies within a time limit not exceeding two years reckoned from the end of the budgetary year in question. These accounts shall be closed by virtue of a law.

Art. 143. (1) Taxes shall be levied only for purposes of common utility.

(2) Taxes shall be fixed in currency. The law shall not impose a tax in kind except under extraordinary circumstances.

Art. 144. (1) No taxes may be levied, modified or abolished except by virtue of a law.

(2) No person may be exempted from the whole or part of a tax except in cases determined by law.

(3) No person may be required to pay a tax except in accordance with the method described by law.

Art. 145. (1) No public or private loan may be contracted except by virtue of a law determining its conditions, the rate of interest and the method of repayment.

(2) The Government shall not grant or guarantee a loan except by virtue of a law.

(3) The procedure for tenders and contracts involving a charge upon public funds shall be determined by a law.

Art. 146. No monopoly or concession to exploit any of the natural resources of the country, or any service of a public utility, may be granted except by virtue of a law and only for a limited period.

Art. 147. (1) A Board of Auditors shall, on behalf of the Chamber of Deputies, examine the accounts of the Government and submit to the Chamber a general report containing its views and observations and indicating any violations committed and fixing the responsibility for them.

57:Davis S-4 (no date) 1953 Ml Middle East
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652 (2) The Chamber of Deputies shall elect the members of the Board of Auditors by an absolute majority of the Deputies present. If such a majority is not obtained, a relative majority shall be sufficient at the second ballot. The election shall be made from a list of candidates prepared by the office of the Chamber containing double the number of vacancies for the Board.

(3) This Board shall be attached directly to the Chamber of Deputies.

(4) The office of the Chamber of Deputies shall draft a bill determining the classification, prerogatives and immunities of the members of the Auditing Board as well as the method of auditing.

(5) The budget of the Board of Auditors shall be a part of the budget of the Chamber of Deputies.

Art. 148. The Chamber of Deputies may charge the Auditing Board with any audit of or studies concerning receipts and expenditure or the administration of the budget.

Art. 149. Once or more each year, the Government shall submit to the Chamber of Deputies a report on the financial situation of the State.

Art. 150. The monetary system shall be regulated by a law.

CHAPTER VIII

ECONOMIC AFFAIRS

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654 Art. 151. The State shall supervise and organize the national economy in order to secure a high standard of living for the people by utilizing the land, promoting industry and trade and providing work for all citizens.

Art. 152. (1) There shall be established in the State a permanent Economic Council entrusted with the task of proposing economic plans and programs to develop the potentialities of the country in the various economic fields.

(2) The Council shall submit its reports and the results of its work to the Government and to the Chamber of Deputies.

(3) The number of the members of the Economic Council and the procedure for selecting them shall be determined by a law in such a way as to ensure the realization of its task.

Art. 153. Institutions enjoying financial and administrative inde-

Finance and public finance

453 652 454 The post-war period witnessed some important changes in Syria's monetary and banking system, in its foreign exchange system and in its public finances. The large increase in production, investment and commerce noted above had its counterpart in the development of the banking system 1/ and expansion of the money supply (see table 10), most of which has taken the form of bank deposits.

This expansion of the money supply in the post-war period has not been matched by a rise in prices. Between 1945 and 1949 the trend was downward. The discontinuance of Allied military expenditure, together with a sharp increase in the import of surplus, led to a sizable deficit on current account. 2/ Moreover, the 1945 and 1946 budgets showed a surplus, and although the 1947 and 1948 budgets closed with a deficit the amount involved was small. Investment remained at a low level. The Arab-Israeli war led to a large budget deficit in 1949; this was, however, offset by the very low level of investment and the huge import surplus. The index of retail prices of twenty-two essential commodities in Damascus fell from its peak of 831 in 1945 (1938 = 100) to 478 in 1949. 3/

435 [454 457] 434 During the period 1950 to 1954, on the other hand, prices rose. The large-scale investment in cotton, and the sharp increase in the quantity and value of exports of cotton and cereals, which led to a position approaching equilibrium in the balance of payments (see table 53), raised incomes. Subsidiary factors were pipeline construction, high building activity, 4/ and small budget deficits. The rise in import prices, aggravated by hoarding and speculation in 1950 and 1951, also played a part. The rise in prices remained, however, small in scale. The index of wholesale prices of raw materials in Damascus, in which cotton has a heavy weight, rose from 100 in 1949 to 111 in 1950 and 136 in 1951; the fall in cotton prices led to a drop to 119 in 1952 and 110 in 1953. Improved cotton

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1/ Foreign banks account for the greater part of banking activities in Syria; in recent years several banks have opened branches in Syria and existing banks have set up new offices in the smaller towns. In the first half of 1954 seven new banks, mostly Syrian or Lebanese, were established, bringing the total to seventeen. The country is still, however, inadequately provided with long-term credit for agricultural and industrial development, a gap that has been only partly filled by the Government-owned Agricultural Bank and Government loans to industry (see above).

2/ It is difficult to distinguish between Syria's and Lebanon's shares in the trade of the customs union, but there is no doubt that Syria had a large import surplus. This was not covered by such receipts as revenue from petroleum companies and remittances sent by emigrants.

3/ Ministry of National Economy, Statistical Abstract, 1953. There was no index of wholesale prices in Syria prior to 1949; the wholesale price index in Beirut fell from its peak of 1,038 in 1945 (1939 = 100) to 641 in 1949.

4/ Authorized floor space for new buildings in Damascus increased from 56,000 square metres in 1945 to 166,000 in 1949, 209,000 in 1950, 162,000 in 1951, 210,000 in 1952 and 265,000 in 1953.

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436 In May 1949 the Government decreed that the unit of currency would henceforth be the Syrian pound, equivalent to 405.512 milligrammes of fine gold, and began depositing gold and foreign exchange as note issue cover.

● 652 436 In July 1949 agreement was reached with Lebanon regarding Syria's debt on account of the Lebanese bank-notes, previously circulating in Syria and now withdrawn by the Syrian Government. The amount was fixed at LL 44 million and it was agreed that settlement would be made by payment of 4,078 million francs to Lebanon; most of this was paid in 1952.

On 28 March 1953 a legislative decree was promulgated, regulating the monetary system of Syria. A Money and Credit Board was established to co-ordinate and direct the activity of monetary and credit institutions. A Central Bank is also to be established; it will be administered by the Money and Credit Board, which is also charged with supervising and orienting the private banks 1/.

The law is being applied in stages. The Money and Credit Board was established in May 1953, and negotiations were started with the Banque de Syrie et du Liban, which at present issues the currency and enjoys several of the prerogatives of a central bank, regarding eventual transfer to the proposed Central Bank of the government deposits held by it and the assets and liabilities of its Issue Department. The concession of the Banque de Syrie et du Liban lapses in 1964, but the Government has declared that it will not necessarily wait until then to establish the Central Bank. In the meantime, the Banque de Syrie et du Liban continues to perform its previous functions.

The legislative decree provided that the cover of the note issue may consist of gold, foreign exchange, government bills and bonds, and advances made by the Central Bank; the percentage of gold and foreign exchange is not to fall below 30 per cent. On 31 December 1953, the gold and foreign exchange cover of the note issue amounted to £S 97.9 million at the official exchange rate - £S 156.7 million at free market rates; the latter figure represented 56.6 per cent of the value of the note issue; 79 per cent of the gold and foreign exchange cover consisted of gold, United States dollars or Swiss francs 2/.

Foreign exchange

457 439 Concurrently with these developments in the monetary system, steps were taken to relax restrictions on foreign exchange, to stabilize exchange rates, and to organize the exchange market. The exchange control system established in

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1/ Ministry of Finance, Statut organique de la monnaie et creation de la banque centrale de Syrie (Damascus, March 1953).

2/ Bulletin issued by the Money and Credit Board, 5 January 1954. The total amount of reserves of gold and of currencies convertible into gold rose from £S 3.0 million at the end of 1948 to £S 8.2 million in 1949, £S 17.9 million in 1950, £S 29.1 million in 1951, £S 49.2 million in 1952, and £S 77.2 million at the end of 1953 François Cracco and Awad Barakat, La reforme du marché des changes en Syrie, (Damascus, 1954).

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£S 3.50 and £S 3.83 in 1951, and between £S 3.55 and £S 3.89 in 1952, in 1953 it fluctuated between £S 3.57 and £S 3.72 and during the last seven months of the year remained stable at £S 3.50. But while the Office has damped seasonal movements it does not seem to have attempted to oppose or mitigate longer-term trends. In addition, in the second half of 1953, two measures were taken to give the exchange market greater flexibility. In July the Exchange Office began to quote daily forward buying rates for United States dollars, pounds sterling, French francs and Belgian francs; these rates were limited to foreign exchange derived from exports. And in August non-resident accounts opened with authorized banks could be overdrawn within the limits and during the time required for the settlement of normal commercial transactions. 1/ Transactions carried out by the Exchange Office rose from £S 302.3 million in 1952 to £S 676.2 million in 1953. 2/ A breakdown of the office's operations shows that it drew on the sterling accruing to the Government at the official rate - mainly from petroleum companies operating in Syria, which in 1953 supplied £ 4.6 million (sterling) - and on its French franc balances, and sold sterling and francs to the market, purchasing with the proceeds gold, dollars and other currencies for use as note issue cover. 3/ 457

Public finance

Both expenditure and revenue increased very rapidly during the war years, expenditure from £S 10.9 million in 1939 to £S 99.1 million in 1945, and revenue from £S 11.4 million to £S 118.2 million, the increase was therefore somewhat greater than the rise in prices. A surplus was registered in every one of the war years, and in 1945 the Government Reserve Fund stood at £S 49 million; in 1946 there was a further surplus of £S 8 million. The increase in expenditure in subsequent years, due mainly to the war in Palestine and to increased expenditure on defence, was not matched by revenue, and every budget except that of 1952 showed a deficit; from 1947 to 1949, £S 32 million were withdrawn from the Reserve Fund. The draft estimates for 1953 and 1954 also show deficits. 652 651

1/ International Monetary Fund, Fifth Annual Report on Exchange Restrictions.

2/ In 1952, £S 29.1 million of purchases and £S 13.4 million of sales and in 1953 £S 29.5 million and £S 31.8 million, respectively, were effected at the official rate, the remainder at free rates.

3/ Net sales to the market in 1952 totalled £ 4.3 million (sterling) and 62 million French francs; net purchases of United States dollars were 9.8 million, of Swiss francs 1.1 million, and of Belgian francs 23.7 million. Corresponding figures for 1953 were 698 million French francs, and $ 12.8 million; purchases of sterling equalled sales (Ministry of Finance, Exchange Office, Annual Report, 1952 and 1953 (in Arabic) Damascus).

652 The Government's debt to the Banque de Syrie et du Liban 1/ rose from
651 £S 158.3 million at the end of 1948 to £S 241.7 million at the end of 1951 and £S 312.4 million at the end of 1953; there had been no debt prior to 1948. The only external debt was the $6 million loan from Saudi Arabia mentioned above.

Important tax reforms were carried out during the war years. In 1942 an income tax was levied on incomes earned in industry, commerce and the professions, on wages and salaries and on dividends, interest and other earnings on capital; rates were raised in subsequent years. 2/ In 1944 a tax of 7 per cent was levied on marketed agricultural produce; this replaced the previously levied tithe and land tax. Buildings and land lying within towns or villages continued to be taxed on their capital value. In 1952 an inheritance tax was imposed, with rates ranging from 1.5 to 40 per cent.

The increase in revenue in recent years has come mainly from increased yield of income taxes, registration fees, excise duties on sugar and petroleum and the profits of the tobacco monopoly (see table 54). On the expenditure side, the most striking change in recent years has been the increase in defence expenditure, which rose from 16.5 per cent of the total in 1945 to 43.7 in 1951/52, declining to 36.3 in the 1954 estimates. Other important items are education, which rose from 8.8 per cent to 17.6 and 17.8, respectively, and health, from 2.9 per cent to 2.8 and 4.2. Expenditure on public works increased little, and its relative importance declined from 12.4 per cent to 6.3 and 8.3. However, some of the most important projects, such as the Ghab drainage, Latakia harbour, Aleppo water project and others, are not included in the budget, being financed by loans or other extra-budgetary sources.

1/ This includes such items as the difference on the French franc cover of the note issue (£S 65.8 million in 1952) and the debts of the Cereals Office (£S 46.8 million), the Exchange Office (£S 26 million), the Agricultural Bank, the railways, electricity administration and other government administrations (£S 59.4 million) and loans to industrial companies guaranteed by the Government (£S 13.4 million), as well as the direct debt of the Government of £S 96.9 million, and other minor items.

2/ In 1952 rates ranged from 6 per cent on incomes between £S 3,000 and 10,000 to 18 per cent on those between £S 30,000 and 50,000 and 36 per cent on those above £S 750,000.

67: United Nations S-5 (1945-1954) 1955 MI Middle East

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Table 54. Syria: Principal Items in Government Budgets, 1939 and 1948 to 1954

(Millions of Syrian pounds)

Item	1939	1948	1949	1951[a]	1952[b]	1953[c]	1954[c]
Revenue:							
Direct taxes on income and wealth [d]	1.2	9.4	12.2	19.3	27.1	27.8	23.8
Taxes on property transfers	0.4	8.9	9.3	16.7	28.8	18.6	21.0
Taxes on land, animals and agricultural produce	3.5	18.9	18.9	26.8	49.7	32.0	31.0
Customs duties	0.1	34.9	41.5	49.6	62.3	37.7	37.8
Other indirect taxes	3.5	34.5	39.1	56.9	60.9	54.8	60.7
Other receipts	2.6	9.5	15.2	40.3	41.4	24.1	27.6
Total[e]	11.4	116.1	136.1	209.7	270.1	194.9	202.0
Expenditure:							
Education	1.7	20.5	22.8	36.3	47.2	36.8	37.1
Health	0.3	3.4	3.9	5.3	7.5	9.4	8.8
Defence	-	44.8	49.3	102.5	104.6	66.0	75.4
Public works	2.0	16.9	16.4	16.9	16.8	17.5	17.2
Other expenditures	6.8	50.6	58.7	73.8	91.6	78.3	69.5
Total	10.9	136.3	141.1	234.8	267.7	208.0	208.0
Balance	0.6	-20.2	-5.0	-25.1	2.4	-13.0	-6.0

Source: United Nations, Bureau of Economic Affairs, Fiscal and Financial Branch.

a/ January 1950 to June 1951.

b/ July 1951 to December 1952.

c/ Estimates.

d/ Taxes on income and wealth consist of income tax on income from real estate, industrial, commercial and other concerns, income on salaries, etc., and also taxes on capital transfers and other receipts.

e/ Total receipts, excluding transfer from reserve funds.

Development projects

652 During the period 1945 to 1952, inclusive, Government expenditure on development totalled £S 301.4 million. Of this £S 115 million was spent through the budget, £S 59.5 million was provided from the Reserve Fund, and £S 126.8 million came from loans made by the bank of issue. 1/ The 1954 budget provided £S 71.6 million for development, of which £S 17.2 million were to be spent through the ordinary budget and the balance to come from various extra-budgetary sources. The preliminary cost of projects under study was put at £S 400 million. 1/ Budget appropriations have been spent by Government departments, but projects financed by extra-budgetary expenditure have generally been carried out by special boards created for the purpose. 2/ No foreign financial assistance has been received by Syria.

Agriculture, irrigation and power

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Budgetary expenditure on agriculture and irrigation from 1945 to 1952 totalled £S 37.9 million, of which £S 25.3 million went to irrigation and the balance to land survey, agricultural schools, model farms, agricultural and veterinary centres and other projects. Extra-budgetary expenditures included £S 5.7 million for irrigation, £S 21.3 million for increasing the capital of the Agricultural Bank, and £S 6.0 million for pest control.

The largest completed irrigation project is that on the Orontes River, in the Homs-Hama region, which irrigates 22,000 hectares. Further works are under study to irrigate an additional 20,000 hectares upstream; their cost has been estimated at about £S 20 million. Other recently completed projects include that on the Quwaiq River, south of Aleppo, which irrigates 15,000 hectares and provides flood control, and the project on the Mzerib, a tributary of the Yarmuk River, which irrigates 2,500 hectares; possibilities for extending both schemes are under study. Irrigation works on the Khabur River, in El Jezira, are very near completion; they have cost £S 9 million and will irrigate 9,000 hectares; considerable further expansion in this scheme is possible and preliminary studies have been made.

Other projects nearing completion include the drainage of the Rouj swamps, near Idlib; the project also provides for the irrigation of 4,000 hectares and the generation of electric power; total costs are put at £S 4 million and completion is scheduled for 1956. The Sinn River project, on the coast south of

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1/ Awad Barakat "Recent Economic Developments in Syria", Middle East Economic Papers, 1954 (Beirut, 1954).

2/ The most important items of expenditure not discussed in this section are £S 33 million for supplying Aleppo with drinking water from the Euphrates, a project which was scheduled for completion in 1954; £S 33 million advanced to municipalities, for water, electricity and public buildings; £S 9.5 million advanced to nationalized electricity companies; £S 26.7 million for Government buildings; £S 8 million for hospitals and clinics, and £S 5.4 million for schools.

Latakia, is to irrigate 5,000 hectares at a cost of £S 2.6 million; the scheme should be completed by the end of 1955. Projects under study include a scheme on the Barada River, near Damascus, to irrigate 5,000 hectares and provide a capacity of 1[illegible],000 kilowatts, at a total estimated cost of £S 12 million; the Yusef Pasha dam, on the Euphrates, which would extend irrigation by 100,000 hectares and provide a capacity of 45,000 kilowatts, at an estimated cost of £S 150 million; and a small multi-purpose project on the Kabir River, north of Latakia. 652 241 312

The most important project under way is that on the Ghab, on the Orontes north of Hama. The objective is to reclaim by drainage some 26,000 hectares of land and to irrigate by gravity a total area of 65,000 hectares, 43,000 of which had not been irrigated before.

The project also includes the building of four hydroelectric stations, with a capacity of 20,600 kilowatts and an estimated annual output of 80 million kilowatt hours; a thermic generator with a capacity of 9,500 kilowatts; and 700 kilometres of roads. Total costs, exclusive of electric installations, are estimated at £S 140 million, of which £S 45 million are for drainage, £S 55 million for irrigation and £S 37 million for roads and bridges. The hydroelectric plants are estimated to cost another £S 17 million and the thermic plant £S 7.6 million. The Government expects to recover its outlay on the scheme by selling, for an estimated £S 150 million, 30,000 hectares of land which it owns in the region and by levying a small irrigation fee. The scheme is expected to raise gross agricultural income by £S 91 million and net income by £S 78 million. Completion is scheduled for 1960. 1/ 652 312 377 241

The Ghab Project Administration was established in 1951, and in 1953 it was authorized to borrow £S 25 million from the Banque de Syrie et du Liban, at 2 per cent interest. A firm of Netherlands consultants, hired by the Government to prepare an over-all plan for the Ghab, presented its report in May 1953. In September 1953 a contract was awarded to a Yugoslav firm for the deepening of the Orontes channel, at a cost of £S 3.3 million. It is expected that contracts for other parts of the project will be awarded soon.

The total area of irrigation projects recently completed or approaching completion is 57,000 hectares and that of schemes planned but not yet begun is 278,000. The total irrigable area, including that at present irrigated, is estimated at 750,000 hectares. 2/

The total cultivable area in Syria is put at 5 million hectares, of which one million are at present not cultivated, while 1.6 million are left fallow each year under the prevailing triennial rotation. Present plans call for intensifying production by using leguminous crops to replace the period of fallow, 311

1/ "The Ghab Project", by Abdel Basit Khatib, Director General of the Ghab Project Administration (mimeographed document, Damascus, October 23, 1954). See also Abdel Basit Khatib Mashru al Ghab (Damascus, October 1953).

2/ Soubhi Mazloum, "Les Irrigations en Syrie", Annual Bulletin of the International Commission on Irrigation and Drainage, 1953, and "Al mashari al maia fi Suria", Al Hayat, 31 July 1954 (Beirut).